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SESSION 1951

HOUSE OF COMMONS

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SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

CHAIRMAN—MR. HUGHES CLEAVER

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, APRIL 12, 1951

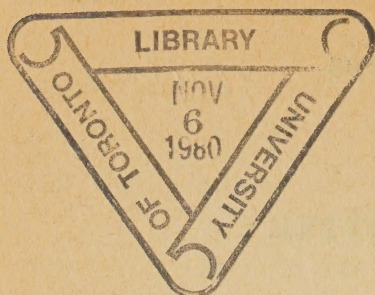
MONDAY, APRIL 16, 1951

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1950)

WITNESSES:

Donald Gordon, C.M.G., LL.D., Chairman and President;
T. J. Gracey, Comptroller;
S. F. Dingle, Vice-President.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1951



SESSIONAL COMMITTEE
ON
RAILWAYS AND SHIPPING
OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: Hughes Cleaver,
Vice-Chairman: H. B. McCulloch.

Messrs.

Benidickson
Bourget
Carter
Cavers
Cleaver
Follwell
Fraser
Fulton
George

Gillis
Gosselin
Hatfield
Healy
Helme
James
Knight
Macdonald
(*Edmonton East*)

Macdonnell
McCulloch
McLure
Mott
Mutch
Picard
Pouliot
Thomas

Clerk—Antonio Plouffe

ORDERS OF REFERENCE

TUESDAY, April 10, 1951.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs. Benidickson, Bourget, Carter, Cavers, Clark, Follwell, Fraser, Fulton, George, Gillis, Gosselin, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell, McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

WEDNESDAY, April 11, 1951.

Ordered,—That the Annual Reports for 1950 of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, the Canadian National Railways Securities Trust, and Auditor's Report to Parliament in respect to the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, tabled on April 3, 1951, and the Budget of the Canadian National Railways and Canadian National (West Indies) Steamships, Limited, for 1951 tabled this day, be referred to the said Committee together with the following items of estimates for 1951-52:

Vote 493—Prince Edward Island Car Ferry and Terminal—Deficit

Vote 495—Canadian National (West Indies) Steamships, Limited—
Deficit

Vote 501—Maritime Freight Rates Act—Payment of 20% reduction in tariff of tolls to Canadian National Railways and other Railways operating in territory fixed by the Act.

And that the resolution passed by the House on March 12, 1951, referring certain estimates to the Committee of Supply, be rescinded insofar as the said resolution relates to Votes Nos. 493, 495 and 501.

That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1950, tabled on March 19, 1951, and the Auditors' Report to Parliament for the year ended December 31, 1950, in respect of Trans-Canada Air Lines, tabled on March 20, 1951, be referred to the said Committee.

Ordered,—That the name of Mr. Cleaver be substituted for that of Mr. Clark on the said Committee.

Ordered,—That the quorum of the said Committee be reduced from thirteen to eight members.

Ordered,—That the said Committee be granted permission to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, from day to day, 700 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Attest.

LEON J. RAYMOND
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, April 12, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from thirteen to eight members.
2. That it be granted permission to sit while the House is sitting.
3. That it be empowered to print, from day to day, 700 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, April 12, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government held an executive meeting at 11 o'clock.

Members present: Messrs. Benidickson, Bourget, Carter, Cavers, Cleaver, Fraser, George, Gosselin, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Pouliot, Thomas (18).

The Clerk of the Committee invited nominations for the election of a chairman.

Mr. McCulloch moved, seconded by Mr. Cavers, that Mr. Cleaver be elected chairman.

The question being put, Mr. Cleaver was unanimously elected and took the chair.

On motion of Mr. Macdonald (*Edmonton East*),

Resolved,—That the Committee recommend that its quorum be reduced from thirteen to eight members.

On motion of Mr. Knight,

Resolved,—That permission be sought to sit while the House is sitting.

On motion of Mr. Fraser,

Resolved,—That the Committee ask leave to print 700 copies in English and 200 copies in French of its minutes of proceedings and evidence.

Ordered,—That the chairman report accordingly.

The election of a vice-chairman was deferred as was the appointment of a sub-committee on agenda.

It was agreed to commence the study of the annual report of the Canadian National Railways (1950) on April 16 next.

On motion of Mr. James, the Committee adjourned until Monday, April 16, at 11 o'clock.

MONDAY, April 16, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 o'clock. Mr. Cleaver, the Chairman, presided.

Members present: Messrs. Benidickson, Carter, Cleaver, Fraser, Fulton, George, Gillis, Helme, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Thomas (15).

In attendance: Honourable Lionel Chevrier, Minister of Transport; Mr. Donald Gordon, Chairman and President; Mr. S. F. Dingle, Vice-President (Operation); Mr. T. V. Gracey, Comptroller; Mr. T. H. Cooper, Vice-President (Finance); Mr. S. H. May, Assistant Comptroller; Mr. J. A. McDonald, Special Assistant to the President; Mr. G. H. Lash, Director of Public Relations; Canadian National Railways.

Mr. J. C. Lessard, Deputy Minister of Transport, Mr. F. T. Collins, Executive Assistant and Secretary, Mr. W. A. Thorton, Executive Assistant, and A. Paradis.

Mr. Donald Gordon was called. He read an introductory statement followed by the annual report of the Canadian National Railways (1950).

Mr. Gordon was assisted by Messrs. Gracey and Dingle.

It was agreed to defer his examination on the letter of transmittal.

Statistical data relating to the hire of freight cars and to payments by C.N.R. and its subsidiaries for duty, currency exchange, etc., were tabled and ordered incorporated in the evidence.

It was further ordered to include in the evidence the tables beginning at page 24 of the report.

The Minister of Transport gave forthwith the dates of the latest appointment of the directors. The dates of their original appointments will be supplied later.

The witness was questioned at some length on the question of box cars.

On motion of Mr. Macdonald,

Resolved,—That Mr. McCulloch be appointed Vice-Chairman.

On motion of Mr. Mutch,

Resolved,—That Messrs. Fulton, Fraser, Gillis, James and McCulloch do compose, with the Chairman, a committee on agenda.

At 1.05 o'clock, the Committee adjourned until 4 o'clock this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock. Mr. Cleaver presided.

Members present: Messrs. Benidickson, Carter, Cleaver, Fraser, Fulton, George, Gillis, Healy, Helme, Knight, Macdonald (*Edmonton East*) Macdonnell, McCulloch, McLure, Mott, Mutch, Thomas (17).

In attendance: Same as indicated at the morning sitting.

The examination of Mr. Gordon was continued.

The witness gave the dates of original appointments of the directors of the Canadian National Railways.

The Chairman informed the members that for the balance of the week the meetings would be held in Room 368 in the other place.

At 6 o'clock the Committee adjourned until 11 a.m., Tuesday, April 17.

ANTONIO PLOUFFE,
Clerk of the Committee.

EVIDENCE

HOUSE OF COMMONS,

APRIL 16, 1951.

The Sessional Committee on Railways and Shipping met this day at 11:00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum. Shall we take first the annual report of the Canadian National Railways? Mr. Gordon.

Mr. DONALD GORDON, C.M.G. (President, Canadian National Railways): Mr. Chairman, I would like to make a brief introductory statement in connection with the form and style of this report. I must confess I find it hard to realize that over a year has passed since I first represented the Canadian National management before this committee. It has been a busy and relatively prosperous year, but in many respects a troubled one, full of dynamic changes. Some of these changes have appeared in personnel, removing some familiar names from the roster of our senior officials. Perhaps, by way of introduction, you might turn to the listing of general officers shown on page 3 of the annual report.

The retirement of two vice-presidents is reflected here. Mr. J. P. Johnson, vice-president, Western Region, retired on 1st October, 1950, and Mr. Alistair Fraser, vice-president, traffic, on March 15 of this year. Both of these officers served the interests of this company faithfully and well over a great many years. On 22nd October, 1950, Mr. Walter S. Thompson, who I am sure is known to many of you, retired as director of public relations, in which position his loyal and effective service to the company earned the gratitude of successive managements. In my own office the death of Mr. G. W. V. Shaw, assistant to the president, was another sad loss to the company, the more so because Mr. Shaw was comparatively young in years.

I shall not take time now to deal with the other staff changes in the upper brackets, for at the appropriate place in the annual report mention is made of the managerial problem created by the unusually large number of retirements, both current and pending, among senior officers.

Before I begin to read the annual report, I think you would find it useful to have a few comments about the organization of this document and the somewhat different approach we have taken this year in presenting the material.

The report is divided functionally into three main sections, first the letter of transmittal, then the narrative of the report reviewing the year's operations, and finally the accounting and statistical data. The letter transmitting the report is designed to give scope for generalized comments relating to managerial problems and policies which could not appropriately be fitted into an analysis essentially confined to the calendar year 1950. In transmitting the report, therefore, an attempt has been made to set the 1950 record in perspective and to indicate both in retrospect and prospect the impact of a constantly changing environment on the Canadian National system, raising some of the immediate problems which are outstanding for the coming year.

The narrative of the report begins under the heading "The Review of Operations" on page 6. In the material which is given in that review greater emphasis has been placed on an explanation of the results achieved so as to assist your examination of our record for the year. Comment is made on each of the major headings of the income and capital accounts. Without unduly lengthening the report, an attempt has also been made in these pages to show the effect of various

economic events on our traffic and revenue figures, how we have been endeavouring to improve performance and keep abreast of advances in technology, and how the Canadian National System has participated in the industrial life and economic development of the country. Although the narrative is somewhat longer than in previous years, it would nevertheless require many more pages to convey adequately a sense of the physical efforts of some 113,000 employees in operating a railroad large enough to wrap itself around the globe, together with hotels, steamships, communications and a variety of other business activities. I hope, however, you will find the photographic plates are of some assistance in filling this gap.

The accounting and statistical data in the last section contain a wealth of information and you will find the main headings listed in the table of contents on page 3, for ready reference. I might also point out that the two accounting statements of fundamental importance to this report can be conveniently found by turning to the middle of the book, where you will find the balance sheet on a double page and the consolidated income statement overleaf.

I turn now to page 4 of the report and will commence with a reading of the letter of transmittal addressed to The Honourable Lionel Chevrier, Minister of Transport, Ottawa.

CANADIAN NATIONAL RAILWAYS

Montreal, March 10, 1951.

The Honourable Lionel Chevrier, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir: There is submitted herewith on behalf of the Board of Directors a report of the operations of Canadian National Railways for the calendar year 1950.

High levels of business activity and intensive resource development were reflected in the operations of the Canadian National System during 1950. Increased freight traffic and higher freight rates produced a new record in gross System revenues, and, despite rising prices and wage costs, net operating revenues were close to \$60,000,000. Nevertheless, income after payment of interest charges showed a deficit of \$3,261,235.

Comparatively speaking, these figures are encouraging but there are two important reasons why the results for 1950 should not be regarded as evidence that the financial problems of the Canadian National are on the verge of solution. First, the System still carries a heavy burden of fixed interest charges as a consequence of the unrealistic capital structure which has distorted the economic worth of the System since its inception in 1923. This together with the imbalance between rates and costs provides a major explanation for the anomalous fact that income deficits have been recorded in each of the post-war years 1946-50 inclusive, even though the volume of freight traffic measured in revenue ton-miles has averaged 72 per cent higher than in 1923. The second reason which demands consideration is that the System is confronted with the certain prospect of substantially increased price and wage costs during 1951. A series of major price increases has already been experienced since the year began, and the inauguration of the forty-hour week on June 1 next will add significantly to our operating costs.

The method of re-capitalization is one of the major items to be dealt with after the recommendations of the Royal Commission on Transportation are made public.

Structural changes in the Canadian economy over the past two decades, marking the progress of this country to the status of a major industrial power,

have produced important changes in the composition of railway freight traffic. This is particularly noticeable in comparing the Canadian National tonnage figures for 1929 and 1950. Under the broad classification of Manufactures and Miscellaneous the number of tons carried increased by nearly 6 million or 28 per cent, and during the same interval of time the tonnage of Mine Products increased by almost 7 million tons or 29 per cent. The two commodity groups accounted for 65 per cent of System freight tonnage in 1929 and over 70 per cent in 1950.

These structural changes were accompanied by an expansion of population, substantial advances in technology and important accretions to the recognized stock of natural resources; in brief, the base of the economy was widened as the level of economic activity reached new peaks in the post-war years.

Together these changes have presented a difficult problem to railway Management in the adjustment of capacity. The lean years have been characterized by excess capacity and financial stringency; the boom years by equipment shortages and inflated capital costs. Meanwhile freight rates have been increasingly subject to erosion by highway competition, and have proven to be inflexible at the upper levels. With heavy capital investment in highly durable equipment, sweeping changes in design are impracticable in the very short run. Industrial development in urban areas tends to surround and confine the growth of railway terminal and other operating facilities, at the same time adding to the requirements for rail service. New branch lines must almost be regarded as investments in perpetuity because of the difficulty in securing approval to make abandonments even where substitute services can be provided. In the case of the Canadian National these factors are super-imposed on others arising out of the formation of the System from a number of unrelated components.

Nevertheless, in view of the economic prospect, and in particular having regard to the vital importance of the Canadian National to Canada's security, the evidence is clear that extensive capital programs must be contemplated in the coming years in order to bring the System to an appropriate state of readiness in both equipment and facilities.

Since the Canadian National is the largest single employer of industrial labour and the largest single purchaser of industrial material in Canada, it is not surprising that the effects of inflation are written large in the accounts of the System. One of the by-products of inflation which is now engaging the earnest attention of Management is the need for adjustment of System pension plans if the decline in the value of money and its effect on retiring employees in the lower pension brackets is to be recognized.

Another important change in the economic environment as affecting railways has been the growth of highway transportation over the past two decades. The corrective measures necessary to establish road-rail competition on an equitable basis lie beyond the control of railway Management, and it is hoped the Royal Commission Report will contribute significantly to this end. Meanwhile the area of policy decision open to the Management of this System is being explored with an open mind in two directions. The first is to re-examine the rates, services and operating techniques involved in the handling of competitive traffic; the second is to collaborate with other members of the Railway Association in an intensive fact-finding program of research into common problems, one of which is the lack of comprehensive statistics on trucking operations in Canada.

In many ways the year 1950 was a difficult one for everyone serving the Canadian National System. The events of the year put to the test of adverse circumstances the capabilities of personnel at all levels and subjected to the tensions of a strike period the relations between Management and organized

employees. In the outcome it was again demonstrated that the Canadian National is a sound and effective organization with a strong cohesive spirit and the ability to measure up to the challenge of arduous times.

D. GORDON,
Chairman and President.

I come now to the section dealing with review of operations which is on page 6.

REVIEW OF OPERATIONS

The results of the System's operations for 1950 compared to 1949 are given in the following summary table:

	1949	1950
Operating revenues	\$553,831,581	\$500,723,386
Operating expenses	493,997,079	478,501,660
Net operating revenue	\$ 59,834,502	\$ 22,221,726
Taxes, equipment rents and other income accounts	17,417,730	18,163,818
Available for payment of interest	\$ 42,416,772	\$ 4,057,908
Interest on bonds held by the public	24,019,158	24,302,651
Available for payment of Government interest	\$ 18,397,614	\$ 20,244,743
Government interest	21,658,849	21,798,283
<i>Income Deficit</i>	<u>\$ 3,261,235</u>	<u>\$ 42,043,026</u>

The Consolidated Income Account appears on page 26.

OPERATING REVENUES

The substantial increase in operating revenues is attributable to higher freight rates and, in a lesser degree, to an increase in the volume of freight traffic. Freight revenues increased by 13 per cent, while passenger revenues declined by 7.8 per cent and express revenues were virtually unchanged compared to 1949.

Freight Rates

On May 25 a decision of the Board of Transport Commissioners for Canada brought about a final settlement of the Railway Association's application in July, 1948 for a 20 per cent increase in freight rates. In successive judgments of the Board an increase of 8 per cent, effective October 11, 1949, was raised to 16 per cent, effective March 23, 1950 and to 20 per cent, effective June 16, 1950. These awards provided for specific increases on coal and coke totalling 15 cents per ton over the rates in effect prior to October, 1949.

The higher rates authorized by these decisions yielded additional System revenues of \$28,016,000 compared to 1949.

Pursuant to an application of the government of Newfoundland in November, 1949, the Board of Transport Commissioners on January 22, 1951, rendered a judgment ordering substantial reductions in freight rates as from March 1 on traffic within, to and from that Province. The Board recognized in the course of judgment that "unfortunately the results flowing from this decision will, in all likelihood, increase the burden of costs to be assumed by the Railway as a result of the entrustment to it of the Newfoundland Railway".

On December 21, following upon the decision rendered by the Arbitrator appointed under the Maintenance of Railway Operation Act to settle the dispute with non-operating employees, the Canadian National joined with the Railway Association in making application for a specific increase of 10 cents per ton on

coal and coke and a general increase of 5 per cent on other freight traffic, the increases to be effective immediately. Concurrently an application was made for such further increase in freight rates as may be required to offset the additional operating expenses which will result from the inauguration of the 40-hour week on June 1, 1951, the increase to take effect on that date. Hearings began on January 19 and on January 25 the Board reserved judgment on that part of the application relating to the 5 per cent increase.

Throughout the year, in an endeavour to assist the Board in carrying out the General Freight Rate Investigation ordered under Order in Council P.C. 1487 of April 7, 1948, the Canadian National and associated Railways have been engaged in studies relating to the feasibility of equalizing freight rates. Hearings on this important matter are scheduled to resume in Ottawa on May 15 next.

The 21 per cent increase in freight rates authorized by the Board of Transport Commissioners in March, 1948, together with the subsequent increase of 20 per cent, has raised the levels of maximum class rates by 45.2 per cent over those prevailing in the period 1922 to 1948. However, because of certain exceptions to the general increases, notably in the case of Crow's Nest grain rates, the effective increases have averaged approximately 35 per cent. By way of comparison, freight rates on American railroads have been generally increased by 57.3 per cent over the levels in effect prior to September, 1939, and an application for further increases is now under consideration by the Interstate Commerce Commission. Over the same period freight rates in the United Kingdom have increased by 81 per cent. It is still true that the average level of freight rates in Canada is one of the lowest of any country in the world.

Volume of Rail Traffic

The tonnage of freight carried during the year increased by 5.9 per cent, but revenue ton miles were only 3.4 per cent higher as the result of a decline in average haul.

Major increases were recorded in the movements of coal and coke, lumber, ore and concentrates and other mine products, newsprint and woodpulp, automobiles and auto parts, scrap iron, fuel oil and crude oil. The very significant increase in the revenue movement of bituminous coal is largely explained by the replenishment of industrial stockpiles following a prolonged period of intermittent production by American mines. Traffic in forest and mine products clearly reflects increased production levels in response to a higher level of business activity in Canada and the United States, while the increased carloadings of automobiles and parts can be attributed to buoyant domestic demand. For the most part, the increased rail movement of crude oil represented a passing phase, the closing months of 1950 having showed progressively the diversion of this traffic to pipelines operating from the Alberta fields.

The very considerable reduction in grain tonnage is chiefly attributable to the late harvest following severe frost damage to Western crops. Pulpwood carloadings were well below 1949 totals, paper mills having drawn their requirements from stockpiles until late in the year. A decrease of 11.4 per cent in less-than-carload tonnage is, in substantial measure, the result of truck competition.

Both the number of passengers carried and the average length of journey declined during the year, passenger-miles showing a reduction of 13.1 per cent. This is mainly attributable to interruptions in train service (discussed on page 18), in addition to reduced tourist and travel expenditures, and the increasing use of motor vehicle and airline transportation.

OPERATING EXPENSES

Increased freight traffic was chiefly responsible for an increase of \$15,495,419 or 3.2 per cent in operating expenses, which reached an all-time high. Higher

wage rates accounted for \$4,627,000, and higher prices for \$3,740,000 of the additional costs. Details of expenses incurred under six major headings are shown on pages 27 to 29.

The deferred maintenance reserve was completely used up by a charge of \$9,000,000 during the year.

Prices

An index of the prices of all railway materials based on 1936-38=100 showed a rise of 5·4 per cent during the year to a level of 201. Excluding three important materials—ties, coal and oil fuel—the prices of which were relatively stable, the index of all other material showed an increase of nearly 8 per cent between May and the end of the year. Had year-end prices been in effect throughout 1950 actual operating expenses would have been greater by almost \$6,000,000.

Employee Compensation

Pursuant to the award on December 18 by the Arbitrator appointed to decide on matters in disagreement between the Railway and non-operating employees, the final settlement of this dispute included provision:

- (i) For other than hotel and water transport employees; effective August 31, 1950, an increase of 3c per hour additional to the 4c per hour increase stipulated in the Maintenance of Railway Operation Act; effective June 1, 1951, a five-day forty-hour week with maintenance of take-home pay; the term of agreements to run for two years from September 1, 1950.
- (ii) For hotel and water transport employees, a one-year agreement effective September 1, 1950, incorporating the 4c per hour increase stipulated in the Maintenance of Railway Operation Act but excluding the above mentioned changes in wages and working hours.

Projected to an annual basis the additional operating cost of the direct wage increases alone amounts to \$13,076,600 per year for the employees involved in this settlement. But the major effects on operating expenses will not be experienced until the forty-hour week becomes effective on June 1, 1951. Without attempting to anticipate actual expenses, it is important to appreciate that in itself the reduction in weekly hours from 48 to 40, with weekly pay maintained, constitutes an increase of 20 per cent in *hourly* wage rates.

OTHER INCOME ACCOUNTS

There was a reduction of \$1,169,015 in the net debit arising from this group of accounts. Increase in use of foreign lines' freight cars cost the Company \$1,936,957. The 5 per cent call premium on \$17,338,000 40-year guaranteed gold bonds called for redemption on February 1, including the charge for unamortized discount, cost \$1,025,580; this is \$2,800,676 less than the cost of a similar redemption in 1949, involving \$57·7 millions.

CAPITAL EXPENDITURES

Capital expenditures during 1950 amounted to \$38,022,056, of which \$21,362,780 was for new equipment.

FINANCE

Two bond issues and one issue of Equipment Trust Certificates were sold during the year.

An issue of \$40,000,000 2½ per cent Twenty-one Year Bonds was made on January 16, 1950, the cost to the Company being 2·95 per cent. The proceeds

were used to finance Capital expenditures, to refund Equipment Principal payments and to redeem \$17,338,000 of 5 per cent Bonds due on February 1, 1970. which were called for redemption on February 1, 1950.

On June 15, \$6,000,000 2½ per cent Twenty-five Year Bonds, payable in United States funds, were sold at a cost of 2·73 per cent. This issue was sold to refund two issues of 4 per cent Bonds, of which \$5,872,000 matured on July 1, 1950, and the balance on October 1, 1950, payable in United States funds.

These refunding operations produced an annual saving of \$404,872 in interest charges.

On March 15, 1950, a \$22,000,000 issue of 2½ per cent Ten Year Serial Equipment Trust Certificates, maturing semi-annually in equal principal instalments, was sold at a cost of 2·37 per cent. This issue provided approximately 75 per cent of the cost of acquisition of new equipment.

NEW CONSTRUCTION

Continued progress was made on a number of major projects during the year.

At the Bonaventure Freight Terminals, strategically located in downtown Montreal, the inbound shed and three transfer platforms were completed, and together with the outbound shed, were fully in operation by the year-end. Operations in this newest and largest freight terminal in Canada are being extensively mechanized. Work was begun on one of the three remaining projects, a four-storey freight office building, which when completed will permit demolition of the former Bonaventure Passenger Station and reconstruction of adjacent streets by the City. Construction of the central heating plant and shed foreman's office is to start shortly.

Improvements designed to enlarge by over 1,000 cars the capacity of yards at Mimico, on the outskirts of Toronto, were proceeded with during the year. Two-thirds of the work was completed and the trackage placed in operation for both local and through traffic. The enlargement of freight yards at Vancouver was also completed.

At the Point St. Charles shops in Montreal, the largest on the System, work was begun on the paint shop and transfer table as part of a program of general reconstruction.

The new freight shed in Edmonton, begun in 1949 to accommodate greatly increased traffic, was opened for use in November, 1950. At the end of the year only minor work remained to be done on this structure, and the necessary trackage was completed. The related project of rearrangement of Edmonton yard facilities was also advanced during the year.

An extensive two-year program for the enlargement of Turcot Yards in Montreal was authorized in mid-December, and work was begun early in 1951. The additional capacity will help to relieve the pressure experienced in handling traffic with existing facilities.

The International Aviation Building, world headquarters of the International Civil Aviation Organization and the International Air Transport Association, was formally opened on June 1. This is part of the Montreal Terminal Development Plan which, when fully completed, will include an hotel and office building. Work on another preliminary phase of this development began in October, 1950 with the rearrangement of the track structure in the Central Station area. Completion of this project will relieve some of the congestion experienced during peak hours of suburban traffic.

On all of these projects now in hand the rate of progress during 1951 will depend substantially on the availability of materials.

Before proceeding to the next heading, Mr. Chairman, the committee will observe that there is a table there giving equipment orders and deliveries which I would like to have incorporated in the report and perhaps I could be excused from reading it here.

The CHAIRMAN: Yes.

EQUIPMENT ORDERS AND DELIVERIES

Deliveries of new equipment during 1950 were as follows:

FREIGHT CAR EQUIPMENT	490	50-ton flat cars
	5	135-ton depressed centre flat cars
	100	70-ton hopper cars
	25	30-ton automobile cars for Newfoundland
	60	30-ton box cars for Newfoundland
PASSENGER AND EXPRESS CAR EQUIPMENT	20	roomette sleepers
	25	air-conditioned coaches
	50	baggage cars
	3	baggage cars for Newfoundland
LOCOMOTIVE EQUIPMENT	8	1500 h.p. diesel-electric locomotives
	3	1000 h.p. diesel-electric switchers
	18	600 h.p. diesel-electric locomotives
	3	electric locomotives
WORK EQUIPMENT	11	steel snow plows
	6	Jordan spreaders
	1	disel industrial hoist

Orders outstanding at the end of the year covered the following equipment. Except where otherwise noted, deliveries are expected in 1951.

FREIGHT CAR EQUIPMENT	100	70-ton covered hopper cars
	5,000	50-ton box cars
	40	30-ton box cars for Newfoundland
PASSENGER AND EXPRESS CAR EQUIPMENT	*6	multiple unit motor coaches
	*12	multiple unit trailer coaches
	50	baggage cars
	5	mail and express cars
	6	sleeping cars for Newfoundland
	*3	mail cars for Newfoundland
	10	express refrigerator cars for Newfoundland
	4	baggage cars (Grand Trunk Western Railroad)
LOCOMOTIVE EQUIPMENT	22	800 h.p. diesel-electric switching locomotives
	18	1000 h.p. diesel-electric road switching locomotives
	20	1600 h.p. diesel-electric road locomotives
	28	1500 h.p. diesel-electric road locomotives

WORK EQUIPMENT

28	30 cu. yd., 50-ton air dump cars
20	16 cu. yd., 30-ton air dump cars for Newfoundland
2	30 cu. yd., 50-ton air dump cars (Central Vermont Ry.)
4	steel snow plows
1	30-ton diesel-electric locomotive crane
1	locomotive crane and pile driver
1	8-wheel diesel dynamatic wrecking crane for Newfoundland

*Some of this equipment will not be delivered until 1952.

Mr. GORDON:

TECHNOLOGICAL IMPROVEMENTS

The new facilities and equipment described on preceding pages embody recent technical advances in design and operation.

Motive Power

The acquisition of 29 more diesel locomotives during the year brought the total number in service to 177, of which 121 are used primarily in switching service. Eighteen road-switching locomotives were put into service in Prince Edward Island, completing the dieselization of operations in that territory. The eight 1,500 h.p. road locomotives received were placed in service between Montreal and the Lake St. John area, permitting a more efficient and economical handling of heavy traffic over the adverse grades encountered.

A series of experimental runs, chiefly on long distance passenger trains, were made with diesel locomotives in order to test under practical conditions the performance expected from this type of motive power.

The conversion of a further 47 steam locomotives on Western Region lines to the use of oil fuel increased the total number of these units in service to 211. No coal-burning steam locomotives are now in service on the British Columbia district nor on the main line of the Alberta District west of Edmonton.

Experiments were conducted with encouraging indications during the year by the Research and Development Department in an attempt to achieve a better utilization of fuel in existing coal-burning locomotives. The Department has also kept in close touch with progress in the development of both oil and coal-fired gas turbine locomotives, which promise to yield important advantages in operation.

Each different type of motive power offers a particular combination of advantages in terms of operating and capital cost. These relative advantages are subject to change with their component elements, including the price and availability of fuels. Because of this and the fact that a large scale investment in any one type of locomotive invites the risk of obsolescence, the Management has been careful to avoid overcommitments. An exhaustive study has now been under way for some months with the object of determining what place should be given to each of the various types of motive power in a long term program.

Passenger Equipment

The year 1950 saw the introduction, for the first time in Canada, of the duplex roomette cars, twenty of which were placed in service on principal trains.

This new type of sleeping car, providing enclosed space at moderate cost, has proved very popular with the travelling public.

The modernization of existing passenger equipment was advanced during the year by rebuilding three bedroom-buffet-lounge cars, and completing alterations to four standard sleeping cars, and six dining cars. In addition, work was proceeded with on five more sleeping cars and three dining cars.

Signalling Equipment

During 1950 work was begun on further extensions of Centralized Traffic Control, a despatching system in which centrally controlled electric signals take

the place of train orders or timetable authority. Installations are proceeding on a section of 148 miles between Hornepayne and Foleyet, Ontario, and on a section of 35 miles between Pontiac and West Durand, Michigan, on Grand Trunk Western lines.

Progress was made on plans for the eventual installation of automatic block signals on all main line track through the mountain territory from Jasper, Alta., to Port Mann, B.C. During 1950 an installation was completed between Red Pass Junction and Jackman, B.C., and work was begun on the line between Jasper and Red Pass Junction.

Work also commenced on the installation of electric interlocking plant in the yards at Mimico, Ontario, and Portage La Prairie, Manitoba. This system of terminal operation makes use of power-operated switches and signals controlled from a central point.

Maintenance of Way Equipment

Operating tests were made of a mobile ballast cleaner which shows promise of yielding substantial economies in track maintenance. The use of mechanical tie tamping machines was extended by the acquisition of four more units, in which two different types were represented.

Other Research

Research was conducted into problems of refrigeration, the design and construction of freight cars, the use of alloyed steel in locomotive motion parts, and the detection of flaws in steel by supersonic testing. Experiments established the advantages of using oil in dining car stoves and the necessary modifications will be effected. A new type of grain door was successfully developed and will be coming into general use. Control techniques were devised for the lubrication of Diesel engines, resulting in substantial operating economies.

In co-operation with the Canadian Pacific Railway, uniform specifications were developed for box cars. The possibilities of further standardization continue to be explored.

Introduction of the forty-hour standard work week will open up new possibilities for the use of time and labour-saving devices and intensify the search for economies to offset the additional wage costs.

CONDITION OF PROPERTY

Compared with 1939 the Canadian National is operating on a new and much higher plateau of traffic, using for the most part equipment and facilities whose service life has been reduced by at least eleven years. Notwithstanding substantial additions and betterments during the intervening years, a good deal remains to be done. At the end of 1950 approximately one quarter of the System's freight equipment, half of the passenger equipment, and 72 per cent of the locomotive equipment were over thirty years of age. Despite extensive modernization and reconstruction, which has maintained the serviceability of this equipment, retirements must of necessity proceed at a high rate over the next few years. Large orders for new equipment have been placed, but because of the material shortages and congestion arising out of the defence program, deliveries will be slow and uncertain.

Meanwhile, the serious shortages of freight equipment experienced during the last half of 1950 and continuing into the new year made it clear that the existing supply is inadequate to meet the demands of seasonal traffic peaks. To cope with the situation intensive efforts were concentrated on accelerating the shopping and repair program, the tightening up of car distribution, the reduction of terminal and yard delays wherever possible, and the return of cars from foreign niles. The co-operation of shippers was sought in an effort to cut down the turn around of cars and to encourage loading to capacity. Further measures in this direction are under consideration.

In the background of the current car shortage is the inadequacy and resultant congestion of terminal and yard facilities. The rapid pace of indus-

trial development in urban centres, together with near-record levels of traffic, have severely aggravated a problem which has its roots in the fact that the component lines from which the Canadian National System was formed were not originally designed to operate as an integrated unit. Although some of these handicaps are of a permanent nature, improvements wherever feasible will be brought forward in order of priority as quickly as conditions will permit.

Some progress was made during the year in catching up arrears of maintenance and the conditions of the roadbed and track can generally be described as satisfactory.

OPERATING PERFORMANCE

The operating performance of the railway is measured by statistical averages of many kinds, some of which measure the quantity and standard of service and others the cost of service. Some relate to physical units and others are measured in terms of money. The following selected averages highlight the more significant comparisons with 1949 performance.

The amount of traffic handled daily per mile of line—known as the freight traffic density—is a measure of the freight service performed. In 1950 it amounted to 4,172 ton miles per mile, as compared with 3,926 ton miles in 1949.

An important unit of performance is the size of the average carload freight shipment. In 1950 this was 28.7 tons, as compared with 28.9 tons in 1949. The decrease of .2 tons is due mostly to the smaller amount of grain transported from Western Canada.

The amount of use which is obtained from freight car equipment is measured by the car miles per serviceable car day. This was 45.2 in 1950, as compared with 43.5 in the previous year.

The average size of locomotive used in freight service is measured by the tractive effort in pounds. This was 50,500 pounds in 1950, as compared with 50,100 in 1949.

The effectiveness with which freight service is performed is measured by the average tonnage hauled by the locomotive, including in this figure the weight of car and contents. This average trainload in 1950 was 1,471 tons, as compared with 1,457 tons in the previous year.

The speed with which freight service is furnished is measured by the average freight train speed. In 1950 this was 16.3 miles per hour as compared with 16.1 miles per hour in 1949.

An important item of cost is the fuel consumed in the locomotives. This is measured in the number of pounds of coal consumed to move 1,000 tons of freight car and contents one mile. The figure for 1950 was 114 pounds, as compared with 117 pounds in 1949.

In passenger service, the average size of the passenger train increased from 8.7 to 8.8 cars.

The on-time performance of principal trains showed a decline from 64.9 per cent of trains on time to 61.2 per cent.

The average cost of maintaining the average locomotive was 38.96c per locomotive mile in 1950, as compared with 37.91c in 1949, and the average cost of maintaining the average freight car expressed in cents per mile was 1.728c in 1950, as compared with 1.630c in 1949, while the cost of maintenance of the average passenger car mile was 7.214c, as compared with 6.497c. The increase in these units of performance, measured in dollars, is largely due to changes in price and wage structures.

Interruptions To Train Service

The operating performance in 1950 was affected to some extent by severe flood conditions in various parts of the country. These floods caused serious disturbances to train service and involved heavy maintenance expenditures.

In the Prairie Provinces prolonged cold spells with temperatures down to 45 degrees below occurred in the early months of the year. Average January

temperatures from Regina westward to the Pacific coast were the lowest on record.

Iceing conditions, snow blockades, and rock slides in British Columbia during January and February cut communication lines and caused major interruptions to train service lasting up to 12 days.

The spring brought serious floods on the Gaspé line where two major bridge structures were lost and the track washed out in several places for distances up to one mile. In order to maintain supplies in isolated areas during a period of thirty-one days when through-train services were suspended, two small ships were chartered for 8 trips between Campbellton, Chandler, and Gaspé Town.

The flooding of the Red River during May and June was a major disaster. Early mobilization enabled the Railway to make an effective contribution during the period of emergency. Twenty-eight special trains were operated in carrying relief supplies and evacuees, and over an eight-day period trains shuttled across the only remaining bridge between Winnipeg and St. Boniface carrying more than 100,000 passengers. Damage to Railway property included the washout of 36 miles of line and was set at \$508,000.

Extensive flooding in British Columbia during the late spring interrupted train services for short periods.

These climatic excesses made unprecedented demands on the resources of the System and on the endurance and resourcefulness of railway personnel. It is gratifying to record that the response earned a full measure of praise and commendation from the public.

A coal shortage, induced by protracted strikes in American mines, resulted in some curtailment of passenger train services over a three month period ending March 9. No difficulties were experienced in rebuilding coal inventories in the latter months of the year.

HOTELS

In providing superior facilities and service for the accommodation of tourists and delegates to international conventions the hotels and summer resorts owned by the System not only complement railway passenger service but add indirectly to Canada's earnings of American dollars. Canadian National hotels make an important contribution to the social life and business income of the communities in which they are located. The summer resorts are well known throughout the continent.

The net operating income for nine Canadian National hotels and three summer resorts amounted to \$565,853 compared to \$1,053,280 in 1949. These figures include the operating results of the Newfoundland Hotel, which was entrusted to the System in October, 1949, but exclude those of the Hotel Vancouver, which is owned by the Canadian National and operated jointly with the Canadian Pacific.

The substantial reduction in net operating income is attributable mainly to a decline in gross revenues and to a charge against operating expenses of \$174,000 for retirements, alterations and replacements in connection with extension to the Macdonald Hotel.

Excluding the Hotel Vancouver and the Newfoundland Hotel, the number of hotel guests accommodated showed a reduction of 5.7 per cent to 577,496, partly because of the employees' nine-day strike beginning August 22nd, and partly due to a general falling off in tourist and travel expenditures. Gross revenues fell by 4.3 per cent to \$7,300,740. For similar reasons patronage of summer resorts was reduced by 11.4 per cent and gross revenues declined by 9.2 per cent to \$951,225.

In addition to the retirement of facilities, operating expenses were adversely affected by a 4 cent hourly wage increase effective August 31, by substantially increased prices of supplies, and by higher taxes.

During the year steel work was completed and work progressed on the superstructure of the new sixteen-storey wing of the Macdonald Hotel in Edmonton, which will add to existing facilities 300 guest rooms, a shopping centre, a ball room, a cafeteria, and convention and banqueting halls.

COMMUNICATIONS

The Communications Department operates an intricate and far-flung network of telegraph, telephone and radio channels providing a great number of circuits for the internal use of the System, for carrying radio programs of the Canadian Broadcasting Corporation, for meteorological services, for stock quotations, for linking offices of industrial and commercial firms by private lease wire and for the transmission of telegrams and cables. This network extends from the borders of Alaska, where the Department operates the North-west Communication System, to Edmonton, where it joins the trans-continental land lines linking British Columbia to the Maritimes. On April 1, 1951, the Crown-owned radio connection between the mainland and Port aux Basques will be turned over to the Canadian National, completing another link with the Newfoundland communications system entrusted for operation in April, 1949.

Technological changes have played a major part in the expansion to the present operation of over half a million channel miles, more than double the number in use in 1939. This growth, which has mirrored the rapid development and closer integration of the economy over the past decade, has no more than kept pace with expanding requirements, and available facilities are assigned to practical capacity.

The volume of business conducted by the department in 1950 showed appreciable increases in services of all kinds during the year. Gross revenues increased by 14.2 per cent to a new peak of \$10,565,625.

EMPLOYEE RELATIONS

The major events of the year centred around a dispute which originated on June 16, 1949, with the presentation of formal demands by the non-operating employees, as described in the Annual Report for 1949. This dispute culminated in a strike leading to a virtually complete suspension of System operations between the early morning of August 22 and the late evening of August 30.

At the beginning of the year the matter was being reviewed by two Boards of Conciliation and Investigation. The reports of the Boards, made public on April 11, were accepted by the Railways but rejected by the employees. Subsequent negotiations failed to achieve agreement and on August 18 the Minister of Labour appointed Dr. W. A. Mackintosh to act as Special Mediator. No basis of agreement could be found and the strike took effect at 6.00 a.m. Regional Standard Time on August 22.

Further negotiations between the disputing parties, held in Ottawa on August 25 and 26, failed to resolve the dispute. On August 30, Parliament, meeting in Special Session, passed the Maintenance of Railway Operation Act providing for a 4c per hour wage increase, a return to work within 48 hours by the striking employees, the resumption of negotiations, and, failing agreement within a specified time, the appointment of an Arbitrator with power to effect a decision binding on both parties. Subsequent meetings having failed to achieve a settlement, the Honourable Mr. Justice R. L. Kellock was appointed Arbitrator and conducted hearings in Montreal between October 27 and November 10. The Arbitrator's decision was made public on December 18.

A number of revisions were concluded in local wage agreements in the course of the year, the more important covering seagoing personnel of the Newfoundland steamship service and employees of the Newfoundland Hotel. For the most part, however, revisions were held in abeyance pending the settlement of the case of the non-operating employees. Of these the principal case concerned employees in the operating trades, with whom negotiations were

resumed during January, 1951. Mutually satisfactory agreements were concluded on March 1 with locomotive engineers on the Western Region, and on March 3 with firemen, conductors and trainmen on the Central and Atlantic Regions.

On August 27, 1950, by virtue of an Executive Order of the United States Government, the railways of the United States, including certain lines of this Company and its American subsidiaries, were placed under the control of the Federal Government. The action arose out of the wage dispute with employees of the operating trades which threatened to disrupt vital services. Subsequent interruptions to yard operations were ended on February 8, 1951, by General Order No. 2, issued by the Assistant Secretary of the Army. This Order provided for interim wage increases pending final conclusion of negotiations which are still in progress.

Negotiations with the non-operating employees in the United States were successfully concluded on March 1, 1951.

Personnel Department

Reorganization of the Personnel Department has been under way during the past year in recognition of the fact that relations with the employees—of which wage matters are only one facet—constitute a managerial responsibility of prime importance.

An important problem to which careful consideration has been given is that of selecting and developing employees capable of filling senior positions in the organization. Greater attention was also given to training programs in anticipation of the additional requirements in prospect with the introduction of the 40-hour week.

Employment bureaus were in operation at Montreal and Toronto during 1950 and preparations were made for opening offices in other large centres. Modern techniques for the testing and selection of employees are in use. The bureaus serve as a clearing house for requirements, both for new employees and those released from service in other departments.

Divisional, Regional and System conferences with employees under the Labour-Management Co-operation Plan were continued during the year with mutually beneficial results. The Plan provides a healthy atmosphere for frank discussions centring around the improvement of methods and conditions of work performance.

Tangible and encouraging results emerged during the year from the activities of the Suggestions Bureau, which provides an additional channel for the communication of constructive ideas by the employees.

PARTICIPATION IN ECONOMIC DEVELOPMENT

Major additions to the inventory of Canada's natural resources during the past decade, together with progress towards industrial maturity, have underscored the importance of the Canadian National System in the Canadian economy. All across the country Canadian National lines skirt the edge of a newly recognized economic frontier of the North, where the potentialities of hydro-electric power developments and the exploitation of forest and mineral wealth have placed the System in the vanguard of some of the major economic developments in prospect.

The Management has a direct interest in stimulating the development of territories tributary to the railway lines of the System. To this end the Development Division of the Department of Research and Development has accumulated a valuable store of information on the economic characteristics of areas suitable for further development and is equipped to provide industry with advice on the many economic and engineering problems associated with the

decisive choice of plant location. It is estimated that over 60 per cent of industrial capital is invested on plant sites served by Canadian National Lines.

Immigration

The importance of immigration and land settlement to Canada's economic growth has long been reflected in the policy of the Company, whose lines have opened up vast areas for development. The Department of Colonization and Agriculture, working in close co-operation with other interested organizations and branches of government, is well equipped to assist in the initial selection, transportation and placement of new immigrants to Canada. During the year the Department continued to encourage the largest possible movement of desirable settlers, and nearly 2,500 families were located on land served by System lines.

THE ROYAL COMMISSION ON TRANSPORTATION

The Royal Commission on Transportation appointed on December 29, 1948, to enquire into transportation problems in Canada, concluded its public hearings in May, 1950. The hearings over the past two years have afforded an opportunity for interested parties to record their viewpoints on a number of topics ranging over a broad field, and the results of this important investigation are awaited with general interest.

Then, following the report, members of the committee will observe that on pages 24 and 25 there is the consolidated balance sheet of the system. On page 26 there will be found the details of the consolidated income account; on page 27 you will find details of the operating revenues and the operating expenses, continued on pages 28 and 29. These tables give not only the figures for the year 1950 but also the comparable figures for the year 1949. On page 30 you will find the details of the capitalization of the Canadian National Railways, and also an explanation of the major contingent liabilities. On page 32, you will find the property investment account of the railway giving the various headings and also showing a table of existing loans from the government of Canada. On page 33 is the funded debt of the System, that is the issues of securities which are in the hands of the general public. On page 34 you will find details and particulars of our financing arrangement during the year 1950; and also a table commencing in the middle half of that page showing investments in affiliated companies. On pages 36 and 37 there will be found a table showing the companies comprising the Canadian National Railway System and showing the capital stocks owned by the System or in some cases by the public. On page 40 are given the details showing the equipment on hand as at the end of the year and comparisons for the previous year and showing additions during the year 1950. This is really an inventory of the rolling stock of the railway. On page 41 there is a useful table giving a very interesting statement of rail-line operations, showing a general comparison between 1950 and 1949; the same is true of pages 43 and 44 showing the revenue tonnage by commodities for the two years, and the percentage increase or decrease under each heading. On page 44 is a table showing the operated mileage for the year; and on page 45 is a table showing disbursement of total operating revenues and expenses, and also figures giving the number of employees and the amount of their compensation for the System as a whole. Then, finally, at the back you will find a table giving all the offices which the Canadian National maintains in the various centres of the world, and a map which gives a very good illustration of the railway lines operated by the System, including branch lines; and on the reverse of that a map is to be found showing the lines operated by Trans-Canada Air Lines.

CONSOLIDATED BALANCE SHEET AT 31st. DECEMBER, 1950

ASSETS

INVESTMENTS:	
Road and Equipment Property.....	\$2,156,595,140
Improvements on Leased Property.....	2,585,431
Miscellaneous Physical Property.....	66,922,156
	<u>\$2,226,102,727</u>
Capital and Other Reserve Funds:	
System Securities at par.....	\$ 900,000
Other Assets at cost.....	4,277,634
	<u>5,177,634</u>
Investments in Affiliated Companies:	
Other Investments:	
System Securities at par.....	\$ 205,000
Other Assets at cost.....	608,333
	<u>813,333</u>

\$2,295,895,611**CURRENT ASSETS:**

Cash.....	\$ 18,074,293
Temporary Cash Investments at cost.....	11,383,563
Special Deposits.....	5,384,151
Net Balance Receivable from Agents and Conductors.....	21,720,045
Miscellaneous Accounts Receivable.....	16,690,695
Government of Canada—Due on Deficit Account.....	3,261,235
Material and Supplies.....	75,372,055
Interest and Dividends Receivable.....	133,422
Accrued Accounts Receivable.....	4,469,919
Other Current Assets.....	119,489
	<u>156,618,867</u>

LIABILITIES

STOCKS:	
Capital Stocks of Subsidiary Companies held by Public.....	\$ 4,520,890
FUNDED DEBT UNMATURED:	
Held by Public.....	\$ 643,982,250
Held in Special Funds.....	15,047,991
	<u>659,030,241</u>
GOVERNMENT OF CANADA—LOANS.....	
	<u>739,847,514</u>

CURRENT LIABILITIES:

Traffic and Car-Service Balances.....	\$ 13,113,157
Audited Accounts and Wages Payable.....	25,789,338
Miscellaneous Accounts Payable.....	6,193,145
Government of Canada—Interest Payable.....	20,990,187
Interest Matured Unpaid.....	4,442,916
Unmatured Interest Accrued.....	5,636,422
Accrued Accounts Payable.....	11,918,029
Taxes Accrued.....	5,515,437
Other Current Liabilities.....	2,588,285
	<u>96,236,916</u>

DEFERRED LIABILITIES:

Pension Contract Reserve.....	\$ 55,550,000
Other Deferred Liabilities.....	5,914,796
	<u>61,464,796</u>

RESERVES AND UNADJUSTED CREDITS:

Insurance Reserve.....	\$ 12,834,989
Accrued Depreciation—Canadian Lines—Equipment only.....	141,889,446
Accrued Depreciation—U.S. Lines—Road and Equipment.....	27,518,705
Accrued Amortization of Defence Projects.....	3,087,758
Unadjusted Credits.....	8,160,518
	<u>193,491,416</u>

DEFERRED ASSETS:

Working Fund Advances.....	\$ 448,835
Insurance Fund:	
System Securities at par.....	\$ 5,063,991
Other Assets at cost.....	7,750,998
	<u>12,834,989</u>
Pension Contract Fund:	
System Securities at par.....	\$ 8,859,000
Other Assets at cost.....	46,691,000
	<u>55,550,000</u>
Other Deferred Assets.....	2,170,978
	<u>71,004,802</u>

UNADJUSTED DEBITS:

Prepayments.....	\$ 992,216
Discount on Funded Debt.....	3,978,875
Other Unadjusted Debits.....	2,407,051
	<hr/>

7,468,142

GOVERNMENT OF CANADA—PROPRIETOR'S EQUITY—(See note)

Represented by:—	
1,000,000 shares of no par value capital stock of Canadian National Railway Company.....	\$ 18,000,000
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust.....	378,518,135
Capital Expenditures by Government of Canada on Canadian Government Railways.....	379,877,514
	<hr/>

776,395,649

CONTINGENT LIABILITIES:

Major contingent liabilities, as shown on statement attached.

\$2,530,987,422\$2,530,987,422

Sterling and United States currencies converted at par of exchange.

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1950. The total amount of the Investments in Fixed Properties and Equipment as brought into the System accounts at the 1st January, 1923, from the books of the several Corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for Equipment has been applied from the 1st January, 1940, retirement accounting continuing in effect for Fixed Properties.

Subject to the foregoing, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1950, and that the relative Income Account for the year ended the 31st December, 1950, is correctly stated.

As required by The Canadian National-Canadian Pacific Act, 1936, we are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10th March, 1951.

CONSOLIDATED INCOME ACCOUNT

	1950	1949
RAILWAY OPERATING REVENUES:		
Freight	\$445,780,004	\$394,424,463
Passenger	39,889,206	43,287,240
Mail	7,984,695	5,085,328
Express	26,223,206	26,378,979
Communication Systems	10,565,625	9,254,967
All other	23,388,845	22,292,409
TOTAL OPERATING REVENUES	\$553,831,581	\$500,723,386
RAILWAY OPERATING EXPENSES:		
Maintenance of Way and Structures	\$ 90,782,435	\$ 88,402,551
Maintenance and Depreciation of Equipment	114,166,205	106,916,137
Traffic	9,453,716	9,105,658
Transportation	250,748,104	245,715,517
Miscellaneous Operations	5,408,988	5,761,783
General	23,437,631	22,600,014
TOTAL OPERATING EXPENSES	\$493,997,079	\$478,501,660
NET OPERATING REVENUE	\$ 59,834,502	\$ 22,221,726
Taxes	\$ 11,944,611	\$ 11,192,273
Equipment Rents—Net Debit	7,209,310	5,197,970
Joint Facility Rents—Net Debit	236,251	284,666
TOTAL TAXES AND RENTS	\$ 19,390,172	\$ 16,674,909
NET RAILWAY OPERATING INCOME.....	\$ 40,444,330	\$ 5,546,817
OTHER INCOMES		
Income from Lease of Road and Equipment	\$ 102,471	\$ 77,090
Miscellaneous Rent Income	1,101,463	1,031,511
Income from Non-transportation Property	590,038	687,838
Hotel Operating Income	565,853	1,053,280
Dividend Income	214,303	167,836
Interest Income	2,620,540	2,845,632
Miscellaneous Income	1,999,278	789,974
Profit and Loss—Net	75,844	436,220
TOTAL OTHER INCOME	\$ 7,269,790	\$ 7,089,381
DEDUCTIONS FROM INCOME:		
Rent for Leased Roads and Equipment	\$ 696,285	\$ 699,844
Miscellaneous Rents	642,082	617,751
Miscellaneous Taxes	189,883	99,390
Results of Separately Operated Properties—Loss	333,267	581,817
Interest on Unfunded Debt	316,282	333,995
Amortization of Discount on Funded Debt.....	731,409	1,497,123
Miscellaneous Income Charges	2,388,140	4,748,370
TOTAL DEDUCTIONS FROM INCOME.....	\$ 5,297,348	\$ 8,578,290
NET INCOME AVAILABLE FOR INTEREST	\$ 42,416,772	\$ 4,057,908
Interest on Funded Debt—Public	24,019,158	24,302,651
Interest on Government Loans	21,658,849	21,798,283
Income Deficit	\$ 3,261,235	\$ 42,043,026
The Fixed Charges of the System included in the above statement are as follows:		
Rent for Leased Roads and Equipment	\$ 696,285	\$ 699,844
Interest on Unfunded Debt	316,282	333,995
Amortization of Discount on Funded Debt	731,409	1,497,123
Interest on Funded Debt—Public	24,019,158	24,302,651
Interest on Government Loans	21,658,849	21,798,283
	\$ 47,421,983	\$ 48,631,896

OPERATING REVENUES

	1950	1949
Freight	\$438,674,682	\$388,730,693
Payments under Maritime Freight Rates Act (20%)	7,105,322	5,693,770
Passenger	39,889,206	43,287,240
Baggage	150,108	172,491
Sleeping Car	3,423,774	3,701,623
Parlor and Chair Car	355,747	375,760
Mail	7,984,695	5,085,328
Railway Express Agency	417,081	320,435
Express	25,806,125	26,058,544
Other Passenger-train	15,885	17,082
Milk	487,891	516,326
Switching	4,867,516	4,441,650
Water Transfers	1,564,583	1,408,748
Dining and Buffet	2,754,600	3,008,053
Restaurants	288,855	303,175
Station, Train, and Boat Privileges	359,860	397,968
Parcel Room	63,190	79,497
Storage—Freight	202,777	214,702
Storage—Baggage	43,418	52,065
Demurrage	1,376,102	1,284,441
Telegraph Commissions (U.S.)	9,190	9,312
Communication Systems	10,556,435	9,245,655
Grain Elevator	647,647	558,454
Rents of Buildings and Other Property	968,166	947,629
Miscellaneous	5,105,823	4,094,861
Joint Facility—Credit	842,562	846,144
Joint Facility—Debit	129,659	128,260
	<u>\$553,831,581</u>	<u>\$500,723,386</u>

OPERATING EXPENSES

MAINTENANCE OF WAY AND STRUCTURES

	1950	1949
Superintendence	\$ 6,025,974	\$ 5,916,020
Roadway Maintenance	11,762,480	11,798,468
Tunnels and Subways	128,318	278,921
Bridges, Trestles, and Culverts	3,821,502	4,632,641
Ties	10,045,214	9,987,720
Rails	7,779,174	6,947,780
Other Track Material	5,807,490	5,425,044
Ballast	1,608,015	1,463,274
Track Laying and Surfacing	23,785,402	23,145,492
Fences, Snowsheds, and Signs	1,008,086	1,192,849
Station and Office Buildings	3,908,771	3,954,335
Roadway Buildings	560,322	480,234
Water Stations	869,998	722,152
Fuel Stations	393,072	403,613
Shops and Enginehouses	2,923,431	3,002,250
Grain Elevators	72,411	85,740
Storage Warehouses	1,882	2,578
Wharves and Docks	266,064	296,701
Communication Systems	4,655,839	4,157,384
Signals and Interlockers	1,702,624	1,667,655
Power Plants	23,324	34,454
Power-Transmission Systems	361,438	311,041
Miscellaneous Structures	7,803	10,858
Road Property—Depreciation—U.S. Lines	936,199	921,508
Road Property—Retirements	2,441,980	2,160,389
Deferred Maintenance—Credit	9,000,000	8,000,000
Roadway Machines	1,228,840	1,187,804
Dismantling Retired Road Property	247,325	224,807
Small Tools and Supplies	1,587,323	1,431,656
Removing Snow, Ice, and Sand	4,847,832	3,756,475
Public Improvements—Maintenance	618,881	599,253
Injuries to Persons	843,036	800,960
Insurance	265,284	29,534
Stationery and Printing	101,317	97,201
Other Expenses	23,747	26,432
Maintaining Joint Tracks, Yards, etc.—Debit	1,362,143	1,245,385
Maintaining Joint Tracks, Yards, etc.—Credit	2,301,474	2,063,718
Right-of-Way Expenses	61,368	67,661
	<u>\$ 90,782,435</u>	<u>\$ 88,402,551</u>

OPERATING EXPENSES (Continued)

MAINTENANCE OF EQUIPMENT

	1950	1949
Superintendence	\$ 2,521,749	\$ 2,362,299
Shop Machinery—Repairs	3,467,355	3,597,618
Power-Plant Machinery—Repairs	250,671	214,484
Machinery—Retirements	221,717	341,909
Machinery—Depreciation—U.S. Lines	73,566	72,542
Dismantling Retired Machinery	12,295	7,902
Steam Locomotives—Repairs	33,144,615	31,868,175
Other Locomotives—Repairs	1,485,400	1,110,402
Freight-train Cars—Repairs	31,390,144	28,438,073
Passenger-train Cars—Repairs	14,168,444	13,407,738
Floating Equipment—Repairs	1,477,177	945,449
Work Equipment—Repairs	3,362,870	3,010,661
Express Equipment—Repairs	303,930	285,054
Miscellaneous Equipment—Repairs	254,671	247,021
Miscellaneous Equipment—Retirements	8,865	16,487
Dismantling Retired Equipment	175,942	208,899
Equipment—Depreciation	20,544,446	19,585,633
Express Equipment—Depreciation	167,181	190,961
Injuries to Persons	644,945	702,324
Insurance	342,071	53,066
Stationery and Printing	87,598	85,524
Other Expenses	38,822	79,986
Joint Maintenance of Equipment—Debit	301,198	338,399
Joint Maintenance of Equipment—Credit	279,467	254,469
	<hr/> \$114,166,205	<hr/> \$106,916,137

TRAFFIC

Superintendence	\$ 3,096,560	\$ 3,008,156
Outside Agencies	3,816,627	3,793,971
Advertising	1,247,466	1,061,606
Traffic Associations	171,956	177,187
Stationery and Printing	567,834	534,052
Industrial and Development	304,376	284,817
Colonization and Agriculture	248,897	245,869
	<hr/> \$ 9,453,716	<hr/> \$ 9,105,658

TRANSPORTATION

Superintendence	\$ 5,398,288	\$ 5,262,582
Dispatching Trains	2,985,174	2,923,421
Station Employees	33,362,761	33,305,178
Weighing, Inspection, and Demurrage Bureaus	147,800	142,005
Coal and Ore Wharves	98,174	48,559
Station Supplies and Expenses	2,656,899	2,655,648
Yardmasters and Yard Clerks	6,934,438	6,582,237
Yard Conductors and Brakemen	12,737,901	11,856,363
Yard Switch and Signal Tenders	1,217,132	1,203,313
Yard Enginemen	6,297,270	6,294,695
Yard Motormen	2,766,169	2,087,127
Yard Switching Fuel	7,905,981	7,830,278
Yard Switching Power Produced	28,469	19,379
Yard Switching Power Purchased	101,577	82,873
Water for Yard Locomotives	207,687	214,686
Lubricants for Yard Locomotives	145,177	135,436
Other Supplies for Yard Locomotives	94,190	96,112
Enginehouse Expenses—Yard	2,815,396	2,893,868
Yard Supplies and Expenses	287,907	265,201
Operating Joint Yards and Terminals—Debit	2,157,950	2,193,909
Operating Joint Yards and Terminals—Credit	2,356,758	2,314,995
Train Enginemen	19,765,929	19,726,772
Train Motormen	1,089,590	867,417
Train Fuel	47,213,248	47,249,322
Train Power Produced	13,562	5,286
Train Power Purchased	84,964	73,456
Water for Train Locomotives	1,728,524	1,774,505
Lubricants for Train Locomotives	842,327	870,832
Other Supplies for Train Locomotives	495,955	469,888

TRANSPORTATION (Continued)

	1950	1949
Enginehouse Expenses—Train	\$ 8,902,996	\$ 8,532,258
Trainmen	24,433,996	23,890,490
Train Supplies and Expenses	15,515,838	15,405,952
Operating Sleeping Cars	2,647,750	2,734,558
Signal and Interlocker Operation	755,753	770,251
Crossing Protection	1,230,351	1,183,041
Drawbridge Operation	223,310	212,852
Communication System Operation	8,701,924	8,258,946
Operating Floating Equipment	4,373,106	3,556,679
Express	16,750,847	16,302,050
Stationery and Printing	1,027,786	1,064,057
Other Expenses	1,868,155	1,886,828
Operating Joint Tracks and Facilities—Debit	1,439,623	1,389,854
Operating Joint Tracks and Facilities—Credit	599,109	612,387
Insurance	284,872	18,513
Clearing Wrecks	614,286	607,159
Damage to Property	108,737	308,559
Damage to Live Stock on Right-of-Way	89,170	77,146
Loss and Damage—Freight	2,690,351	3,292,634
Loss and Damage—Baggage	18,205	5,435
Injuries to Persons	2,446,476	2,015,289
	<u>\$250,748,104</u>	<u>\$245,715,517</u>

MISCELLANEOUS OPERATIONS

Dining and Buffet Service	\$ 4,062,216	\$ 4,218,483
Restaurants	308,086	294,436
Grain Elevators	202,220	191,072
Other Miscellaneous Operations	500,765	711,124
Operation Joint Miscellaneous Facilities—Debit	335,701	346,668
	<u>\$ 5,408,988</u>	<u>\$ 5,761,783</u>

GENERAL

Salaries and Expenses of General Officers	\$ 730,027	\$ 632,212
Salaries and Expenses of Clerks and Attendants	9,000,732	8,876,678
General Office Supplies and Expenses	579,128	500,659
Law Expenses	576,347	551,079
Relief Department Expenses	42,500	42,500
Pensions	11,802,098	11,296,839
Stationery and Printing	385,148	369,507
Valuation Expenses	12,271	17,299
Other Expenses	217,357	226,767
General Joint Facilities—Debit	106,754	100,770
General Joint Facilities—Credit	14,731	14,296
	<u>\$ 23,437,631</u>	<u>\$ 22,600,014</u>

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

	Year 1950	Balance at 31st Dec., 1950	Percent of Total
EQUITY CAPITAL:*			
Government of Canada—Proprietor's Equity:—			
Capital Stock of Canadian National Railway Company	No change	\$ 18,000,000	
Capital Stock of The Canadian National Railways Securities Trust.....	No change	378,518,135	
Capital Expenditures by Government of Canada on Canadian Government Railways	\$ 1,946,933	379,877,514	
		<u>\$ 776,395,649</u>	35.7%
BORROWED CAPITAL:			
Funded Debt held by the Public.....	\$ 34,164,321	\$ 659,030,241	
Loans from the Government of Canada.	3,813,648	739,847,514	
		<u>\$ 1,398,877,755</u>	64.3%
		<u>\$ 2,175,273,404</u>	100.0%

* Excluding shares of subsidiary companies held by public—\$4,520,890.

MAJOR CONTINGENT LIABILITIES

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4 per cent—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of \$5,800,000 First Mortgage $4\frac{1}{2}$ per cent—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68 per cent.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4 per cent bonds due 1952 and the amounts outstanding at 31st December, 1950, are:—

Issued for "common" property	\$39,973,019
Issued for "exclusive" property	252,535

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplementary lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage $4\frac{1}{4}$ per cent Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1950, is \$13,747,000.

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1950

ROAD:

New Line Constructed	\$ 79,664	
Abandoned Lines	528,614	
Rails and Fastenings	1,914,807	
Tie Plates and Rail Anchors	2,403,382	
Ballast	442,829	
Large Freight Terminals	1,250,518	
Yard Tracks and Sidings	1,661,260	
Roadway Machines	889,226	
Bridges, Trestles and Culverts	1,078,588	
Tunnels	215,705	
Crossing Protection	350,418	
Stations and Station Facilities	1,217,542	
Water Supplies	110,686	
Shops, Enginehouses and Machinery	1,854,120	
Docks and Wharves	155,620	
Automatic Signals and Interlocking Plants	335,452	
Communication Systems	2,803,321	
Non-carrier Property	215,995	
Stores Department Buildings and Equipment	214,373	
General	895,866	\$17,560,758

EQUIPMENT:

Equipment Purchased or Built	\$21,362,780	
Equipment Retirements	4,955,201	
General Betterments to Equipment	3,307,230	
Equipment Conversions	729,024	
Express and Miscellaneous Equipment	357,709	20,801,542

HOTELS	907,852
SEPARATELY OPERATED PROPERTIES	1,248,096

NET ADDITIONS AND BETTERMENTS DURING 1950 \$38,022,056

Ledger Balance 1st January, 1950	\$2,186,133,738
Net Additions and Betterments during the year	38,022,056

Capital Expenditures by Government on Canadian Government Railways:

Purchase of SS "Bar Haven" and SS "Springdale"	\$1,466,933	
Purchase of Temiscouata railway property	480,000	1,946,933

Ledger Balance at 31st December, 1950 \$2,226,102,727

LOANS FROM THE GOVERNMENT OF CANADA

	Principal Outstanding at Dec. 31, 1950	Interest Accrued 1950	Average Interest Rate
Loans for repatriation of U.K. securities	\$391,451,275	\$13,700,577	3.50%
Loans for debt redemption	276,104,887	6,416,056	2.32%
Loans for new rolling stock	30,589,783	823,762	2.55%
Loans for investment in T.C.A.	19,043,022	571,290	3.00%
Loans for capital expenditures	5,886,566	147,164	2.50%
Canadian Government Railways—working capital at con- solidation 1923	16,771,981	—	
	<u>\$739,847,514</u>	<u>\$21,658,849</u>	<u>2.92%</u>

FUNDED DEBT — PRINCIPAL AND INTEREST

NAME OF SECURITY

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1950	Interest Accrued 1950
GUARANTEED BY GOVERNMENT OF CANADA:					
5% Perpetual Debenture Stock.....	G.T.R.....	1875 to 1883..	Perpetual.....	\$ 1,016,092	\$ 50,804
5% G.W. Perp. Debr. Stock and Bonds.....	G.T.R.....	1858 to 1876..	Perpetual.....	499,709	24,985
4% Perpetual Debenture Stock.....	G.T.R.....	1883 to 1918..	Perpetual.....	5,446,491	217,753
4% Nor. Rly. Perpetual Debr. Stock.....	G.T.R.....	July 31, 1884..	Perpetual.....	22,591	793,954
4% 1st Mortgage Bonds.....	G.T.P.....	July 1, 1905..	Jan. 1, 1962..	26,465,130	793,954
3% Sterling Bonds.....	G.T.P.....	July 1, 1914..	Jan. 1, 1962..	7,999,074	319,963
3% 1st Mortgage Debenture Stock.....	Can. Nor.....	July 29, 1903..	July 10, 1953..	1,162,768	34,883
3% 1st Mortgage Debenture Stock.....	Can. Nor.....	Mar. 1910.....	July 20, 1958..	5,636,507	197,278
3% 1st Mortgage Debenture Stock.....	C.N.A.....	Mar. 22, 1911..	May 4, 1960..	550,727	19,275
5% 30 Year Guaranteed Bonds.....	C.N.O.....	Dec. 8, 1911..	May 19, 1961..	3,597,518	125,913
4% 30 Year Guaranteed Gold Bonds.....	Can. Nat.....	Feb. 1, 1924..	Feb. 1, 1954..	50,000,000	2,500,000
4% 25 Year Guaranteed Gold Bonds.....	Can. Nat.....	July 1, 1927..	July 1, 1957..	64,136,000	2,886,120
4% 25 Year Guaranteed Gold Bonds.....	Can. Nat.....	June 15, 1930..	June 15, 1955..	48,496,000	2,303,560
4% 20 Year Guaranteed Gold Bonds.....	Can. Nat.....	Feb. 1, 1931..	Feb. 1, 1956..	67,368,000	3,031,560
3% 20 Year Guaranteed Bonds.....	Can. Nat.....	Sept. 1, 1931..	Sept. 1, 1951..	48,022,000	2,160,990
2% 20 Year Guaranteed Bonds.....	Can. Nat.....	Jan. 15, 1939..	Jan. 15, 1959..	35,000,000	1,050,000
2% 20 Year Guaranteed Bonds.....	Can. Nat.....	Jan. 2, 1947..	Jan. 2, 1967..	50,000,000	1,375,000
3% 17 Year Guaranteed Bonds.....	Can. Nat.....	Jan. 3, 1949..	Jan. 3, 1966..	35,000,000	1,050,000
2% 20 Year Guaranteed Bonds.....	Can. Nat.....	Sept. 15, 1949..	Sept. 15, 1969..	70,000,000	2,012,500
2% 21 Year Guaranteed Bonds.....	Can. Nat.....	Jan. 16, 1950..	Jan. 16, 1971..	40,000,000	1,073,727
2% 21 Year Guaranteed Bonds.....	Can. Nat.....	June 15, 1950..	June 15, 1975..	6,000,000	83,417
Total.....				\$ 566,418,607	\$ 21,312,586

EQUIPMENT TRUST ISSUES:

2 1/2% Series "P".....	Can. Nat.....	Sept. 15, 1938..	Ser. 15, 9 '53	\$ 1,600,000	\$ 53,739
2 1/2% Series "G.T.W.".....	G.T.W.....	June 1, 1941..	Ser. 1, 6 '51	284,000	16,567
2% Series "R".....	Can. Nat.....	Dec. 1, 1947..	Ser. 1, 12 '57	3,920,000	88,667
2 1/2% Series "S".....	Can. Nat.....	Mar. 15, 1948..	Ser. 15, 3 '58	22,400,000	488,396
2 1/2% Series "Sp".....	Can. Nat.....	Nov. 1, 1948..	Ser. 1, 11 '58	17,200,000	415,219
2 1/2% Series "U".....	Can. Nat.....	Mar. 15, 1950..	Ser. 15, 3 '60	20,900,000	368,382
Total.....				\$ 66,304,000	\$ 1,430,970

OTHER ISSUES:

OTHER ISSUES:						
4%	Canada Atlantic 1st. Mtge. Bonds.	G.T.R.....	Jan. 1, 1905	Jan. 1, 1955	\$	9,947,934
4%	1st Mortgage Bonds.....	Pem. Sou....	Sept. 1, 1906	Sept. 1, 1956	\$	150,000
4%	2nd Mtge. Bonds, Prairie "A".....	G.T.P.....	Apr. 1, 1905	Apr. 1, 1955	\$	3,574,530
4%	2nd Mtge. Bonds, Mountain "B".....	G.T.P.....	Apr. 1, 1905	Apr. 1, 1955	\$	3,144,906
4%	2nd Mtge. Bonds, "Lake Superior".....	G.T.P.....	Apr. 1, 1905	Apr. 1, 1955	\$	2,152,008
4%	1st Mtge. Bonds.....	Cdn. Nor....	1903 to 1912	Perpetual.....	\$	3,992,930
4%	Perpetual Cons. Debenture Stock.....	C.N.Q.....	June 21, 1909	Perpetual.....	\$	889,597
4%	Perpetual Cons. Debenture Stock.....	C.N.Q.....	Oct. 1, 1912	Perpetual.....	\$	465,545
4%	Perpetual Cons. Debenture Stock.....	Q & L. St. J..	June 1, 1930	Perpetual.....	\$	285,342
4%	1st Mtge. Perp. Debenture Stock.....	G.T.W.....	Jan. 1, 1930	Jan. 1, 1980	\$	400,000
43%	1st Mortgage Series "A" Bonds.....	Can. Nat....	Sept. 3, 1929	Nov. 15, 1958	\$	380,023
56%	Indebtedness to Province of New Brunswick.....	Nfld. Ry....	1941 to 1944	Ser. 1, 3, 57	\$	924,819
2½%	Registered Instalment Notes.....				\$	—
	Interest on Securities retired in 1950.....				\$	—
	Total.....				\$	26,307,634
	Total Debt as per Balance Sheet.....				\$	659,030,241
	Total Debt as per Balance Sheet.....				\$	24,019,158

There is included in the above \$15,047,991 par value of System Securities held in Special Funds and Accounts.

These applications are stated in Canadian currency. Sterling and United States currencies being converted at the par of exchange.

This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Government of Canada as collateral.

FINANCING

Year 1950

FUNDED DEBT—New Issues

2 $\frac{7}{8}$ % Canadian National Railway Company 21 Year Guaranteed Bonds, due January 16, 1971.....	\$40,000,000	
2 $\frac{3}{4}$ % Canadian National Railway Company Guaranteed Bonds, due June 15, 1975.....	6,000,000	
2 $\frac{1}{2}$ % Equipment Trust Certificate Series "U" 1950, maturing serially to March 15, 1960.....	22,000,000	\$68,000,000

FUNDED DEBT—Retirements

5% Canadian National Railway Company 40 Year Guaranteed Gold Bonds, due February 1, 1970, called February 1, 1950, at 105—par value.....	\$17,338,000	
4% Canadian Northern Pacific Railway Company First Mortgage Debenture Stock, due April 2, 1950.....	797,082	
4 $\frac{1}{2}$ % Canadian Northern Pacific Railway Company Terminal Debenture Stock, due April 2, 1950.....	1,152,763	
4% Grand Trunk Western Railway Company First Mortgage Bonds, due July 1, 1950.....	6,527,336	
4% Montreal & Province Line Railway Company First Mortgage Gold Bonds, due October 1, 1950.....	200,000	
Equipment Trusts—principal payments.....	7,678,000	
2 $\frac{1}{2}$ % Newfoundland Railway Registered Instalment Notes.....	142,206	
Securities repatriated	292	33,835,679
Increase in Funded Debt.....		\$34,164,321

LOANS FROM GOVERNMENT OF CANADA—New

For repatriation of U.K. Securities.....	\$	6,543
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LOANS FROM GOVERNMENT OF CANADA—Repaid

Loans for new rolling stock.....	\$3,819,191	
Loans for debt redemption.....	1,000	3,820,191
Decrease in Loans from Government of Canada.....		\$ 3,813,648
Increase in Capital Debt 1950.....		\$30,350,673

The issue of \$40,000,000 Canadian National Railway Company 2 $\frac{7}{8}$ % Twenty-one Year Guaranteed Bonds, dated January 16, 1950, was sold at a price of 98.83, representing an annual interest cost to the Company of 2.95%, and is callable on any interest payment date on or after January 16, 1966, at par, on 30 days' prior notice.

The issue of \$6,000,000 Canadian National Railway Company 2 $\frac{3}{4}$ % Guaranteed Bonds, dated June 15, 1950, was sold at a net price of 100.35, representing an annual interest cost to the Company of 2.73%, and is subject to redemption as a whole on or before June 14, 1954, at a premium of 2 $\frac{1}{2}$ %, or thereafter to June 14, 1970, at varying premium rates. After June 14, 1970, and until maturity, June 15, 1975, the bonds are redeemable at par.

The issue of \$22,000,000 2 $\frac{1}{2}$ % Equipment Trust Certificates Series "U" 1950, dated March 15, 1950, was made to finance to the extent of approximately 75% new equipment costing \$29,581,632. The Certificates which mature in twenty semi-annual instalments were sold at a price of 99.405, representing an annual interest cost to the Company of 2.37%.

INVESTMENTS IN AFFILIATED COMPANIES

COMPANY	Total Par Value Outstanding	Owned by Can. Nat. System at Dec. 31, 1950	
		Par Value	Book Value
STOCKS:			
The Belt Railway Company of Chicago..	\$ 3,120,000	\$ 240,000	\$ 240,000
Canadian Government Merchant Marine, Limited	800	800	800
Chicago & Western Indiana Railroad Company	5,000,000	1,000,000	1,000,000
The Detroit & Toledo Shore Line Rail- road Company	3,000,000	1,500,000	1,500,000
Detroit Terminal Railroad Company...	2,000,000	1,000,000	1,000,000
Northern Alberta Railways Company..	12,500,000	6,250,000	6,250,000
The Public Markets, Limited.....	1,150,000	575,000	575,000
Railway Express Agency, Incorporated (no par value).....	1,000 shares	6 shares	600
Shawinigan Falls Terminal Railway Company	300,000	150,000	62,500
The Toronto Terminals Railway Com- pany	500,000	250,000	250,000
The Toledo Terminal Railroad Com- pany	4,000,000	387,200	387,200
Trans-Canada Air Lines.....	25,000,000	25,000,000	25,000,000
Vancouver Hotel Company Limited....	150,000	75,000	75,000
			<u>\$36,341,100</u>
BONDS:			
Northern Alberta Railways Co. 1st Mort- gage Bonds	\$21,955,000	\$10,977,500	\$10,977,500
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,910,000	12,955,000	12,955,000
			<u>23,932,500</u>
ADVANCES:			
The Belt Railway Company of Chicago.....		\$ 8,609	
Chicago & Western Indiana Railroad Company.....		3,261,811	
Northern Alberta Railways Company.....		50,000	
Railway Express Agency, Incorporated.....		173,493	
Shawinigan Falls Terminal Railway Company.....		32,500	
Vancouver Hotel Company Limited.....		1,904	3,528,317
			<u>3,528,317</u>
Total Investments in Affiliated Companies as per Balance Sheet.....			<u><u>\$63,801,917</u></u>

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA

Company
Number

1	Canadian National Railway Company.....	\$ 18,000,000
2	The Canadian National Railways Securities Trust.....	378,518,135
		<u>\$ 396,518,135</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	\$ 6,302,340	\$ 12,240
4	The Bay of Quinte Railway Company.....	20	1,395,000	
5	The Bessemer and Barry's Bay Railway Com- pany	20	125,000	
6	The Canadian Express Company.....	1	1,768,800	
7	Canadian National Electric Railways.....	20	1,750,000	
8	Canadian National Express Company.....	21	1,000,000	
9	*Canadian National Railways (France)—frances 30,000,000	1	1,893,574	
10	*Canadian National Realities, Limited.....	20	40,000	
11	Canadian National Rolling Stock Limited....	1	50,000	
12	*Canadian National Steamship Company, Limited	40	15,000	
13	Canadian National Telegraph Company.....	20	500,000	
14	*Canadian National Transportation, Limited...	1	500	
15	The Canadian Northern Alberta Railway Company	20	3,000,000	
16	Canadian Northern Manitoba Railway Com- pany	20	250,000	
17	The Canadian Northern Ontario Railway Company	20	10,000,000	
18	Canadian Northern Pacific Railway Com- pany	20	25,000,000	
19	The Canadian Northern Quebec Railway Company	20	9,550,000	3,849,200
20	The Canadian Northern Railway Company...	1	18,000,000	
21	The Canadian Northern Railway Express Company, Limited	20	1,000,000	
22	Canadian Northern Steamships, Limited.....	20	2,000,000	
23	Canadian Northern System Terminals (Ltd.)..	20	2,000,000	
24	Canadian Northern Western Railway Company	20	2,000,000	
25	*The Centmont Corporation.....	28	176,400	
26	Central Counties Railway.....	1	500,000	12,000
27	The Central Ontario Railway.....	20	3,331,000	
28	Central Vermont Railway, Inc.....	1	10,000,000	
29	Central Vermont Terminal, Inc.....	28	5,000	
30	*Central Vermont Transit Corporation.....	25	5,000	
31	Central Vermont Transportation Company....	25, 28	200,000	
32	The Champlain and St. Lawrence Railroad Company	1	50,000	
33	*Consolidated Land Corporation.....	43	64,000	
34	Duluth, Rainy Lake & Winnipeg Railway Company	36	2,000,000	
35	Duluth, Winnipeg and Pacific Railroad Com- pany	36	100,000	
36	Duluth, Winnipeg and Pacific Railway Com- pany	20	3,100,000	
37	*Grand Trunk-Milwaukee Car Ferry Company.	43	200,000	
38	The Grand Trunk Pacific Branch Lines Com- pany	40	200,000	
39	The Grand Trunk Pacific Development Com- pany, Limited	40	3,000,000	
40	The Grand Trunk Pacific Railway Company..	1	24,940,200	
41	The Grand Trunk Pacific Saskatchewan Rail- way Company	40	20,000	
42	*Grand Trunk Pacific Terminal Elevator Com- pany, (Limited)	40	501,000	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM (Cont.)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC (Cont.)

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
43	{Grand Trunk Western Railroad Company (Common) Grand Trunk Western Railroad Company (Preferred)	1	\$ 20,000,000 25,000,000	
44	The Great North Western Telegraph Company of Canada (Including \$331,500 held in escrow)	13	373,625	\$ 6,825
45	The Halifax and South Western Railway Company	20	1,000,000	
46	*Industrial Land Company.....	43	1,000	
47	International Bridge Company.....	1	1,500,000	
48	The James Bay and Eastern Railway Company	20	125,000	
49	The Lake Superior Terminals Company Limited	20	500,000	
50	The Maganetawan River Railway Company...	1	30,000	
51	Manitoba Northern Railway Company.....	1	500,000	
52	The Marmora Railway and Mining Company	20	128,600	
53	The Minnesota and Manitoba Railroad Company	20	400,000	
54	The Minnesota and Ontario Bridge Company..	20	100,000	
55	*Montreal and Southern Counties Railway Company	1	500,000	140,600
56	The Montreal and Vermont Junction Railway Company	28	197,300	
57	*Montreal Fruit & Produce Terminal Company, Limited	1	500	
58	*The Montreal Stock Yards Company.....	1	350,000	
59	*The Montreal Warehousing Company.....	1	236,000	10,440
60	Mount Royal Tunnel and Terminal Company, Limited	20	5,000,000	
61	Muskegon Railway and Navigation Company..	43	161,293	
62	*National Terminals of Canada, Limited.....	1	2,500	
63	National Transcontinental Railway Branch Lines Company	1	500	
64	*The Niagara, St. Catharines and Toronto Railway Company	20	925,000	
65	*The Niagara, St. Catharines and Toronto Navigation Company (Limited).....	64	100,000	
66	*The Oshawa Railway Company.....	1	40,000	
67	The Ottawa Terminals Railway Company....	1	250,000	
68	The Pembroke Southern Railway Company...	1	107,800	
69	Prince George, Limited.....	1	10,000	
70	Prince Rupert, Limited.....	1	10,000	
71	The Quebec and Lake St. John Railway Company	20	4,508,300	489,160
72	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company.....	20	201,000	
73	Rail & River Coal Company.....	1	2,000,000	
74	St. Boniface Western Land Company.....	20	250,000	
75	The St. Charles and Huron River Railway Company	20	1,000	
76	St. Clair Tunnel Company.....	1	700,000	
77	*The Thousand Islands Railway Company....	1	60,000	
78	The United States and Canada Rail Road Company	1	219,400	425
79	Vermont and Province Line Railroad Company	1	200,000	
80	The Winnipeg Land Company Limited.....	20	100,000	
			<u>\$ 201,821,632</u>	<u>\$ 4,520,890</u>

The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

RAILWAY EQUIPMENT

	Decem- ber 31, 1949	*Addi- tions during year	Retire- ments during year	Conversions during year		Decem- ber 31, 1950
				Added	Retired	
LOCOMOTIVES:						
Passenger—Freight.....	1,955	7	36	1		1,927
Switching.....	554		7		1	546
Electric.....	24	3				27
Diesel Electric.....	148	29				177
Total.....	2,681	39	43	1	1	2,677
FREIGHT EQUIPMENT:						
Box Cars.....	76,442	116	1,004		405	75,149
Flat Cars.....	5,464	521	66		36	5,883
Stock Cars.....	3,032		16	119	3	3,132
Coal Cars.....	16,598	100	492		89	16,117
Tank Cars.....	242		1		10	231
Refrigerator Cars.....	4,057		56			4,001
Caboose Cars.....	1,704	3	28	52		1,731
Other Cars in Freight Service.....	13	24				37
Total.....	107,552	764	1,663	171	543	106,281
PASSENGER EQUIPMENT:						
Coach Cars.....	1,126	34	28			1,132
Combination Cars.....	262	5	9	6		264
Dining Cars.....	93					93
Colonist Cars.....	166		2		6	158
Parlor Cars.....	61				1	60
Cafe Cars.....	27		1			26
Sleeping Cars.....	366	20	1		5	380
Tourist Cars.....	47		4			43
Baggage and Express Cars.....	1,133	53	20			1,166
Postal Cars.....	55					55
Unit Cars.....	28	2	1			29
Other Cars in Passenger Service.....	53	2	1		1	53
Total.....	3,417	116	67	6	13	3,459
WORK EQUIPMENT:						
Cars in Work Service.....	7,769	38	239	379		7,947
FLOATING EQUIPMENT:						
Car Ferries.....	8					8
Barges.....	6					6
Steamers.....	11	3				14
Tugs.....	5					5
Work.....	3					3

* Includes Temiscouata Railway equipment acquired January 1, 1950—117 units.

STATISTICS OF RAIL-LINE OPERATIONS

*TRAIN-MILES:	1950	1949
Freight Service	45,458,577	43,160,657
Passenger Service	22,387,001	23,740,378
Total	67,845,578	66,901,035
Work Service	1,660,668	1,491,904
Total	69,506,246	68,392,939
*LOCOMOTIVE-MILES:		
Freight Service	48,499,499	45,831,562
Passenger Service	22,451,088	23,805,688
Train Switching—Freight	3,913,276	3,790,738
—Passenger	148,239	152,041
Yard Switching—Freight	16,696,883	15,579,565
—Passenger	1,678,613	1,707,756
Total	93,387,598	90,867,350
Work Service	2,224,277	2,003,049
Total	95,611,875	92,870,399
*CAR-MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,225,840,184	1,158,838,514
Empty Freight Cars	530,990,013	500,340,311
Passenger Coach and Combination Cars	6,651,117	6,127,545
Sleeping, Parlor and Observation Cars	410,567	364,712
Dining Cars	34,650	19,667
Other Cars	8,026,236	7,404,387
Caboose Cars	44,790,469	42,570,764
Total	1,816,743,236	1,715,665,900
*CAR-MILES—PASSENGER SERVICE:		
Loaded Freight Cars	687,577	788,212
Empty Freight Cars	82,782	79,081
Passenger Coach and Combination Cars	56,183,679	60,709,393
Sleeping, Parlor and Observation Cars	50,546,895	52,896,982
Dining Cars	8,128,985	8,084,720
Other Cars	76,286,092	77,933,744
Motor Unit Cars	596,160	666,307
Caboose Cars	753,218	763,775
Total	193,265,388	201,922,214
Car-Miles—Total	2,010,008,624	1,917,588,114
Work Service	3,627,430	3,232,465
Total	2,013,636,054	1,920,820,579
AVERAGE MILEAGE OF ROAD OPERATED	24,188.40	23,902.01
FREIGHT TRAFFIC:		
Tons carried—Revenue freight	81,364,658	76,845,970
Tons carried one mile—Revenue freight	31,988,269,548	30,921,807,529
Freight revenue	\$455,780,004	\$394,424,463
Revenue per ton	\$5.47879	\$5.13266
Revenue per ton-mile	\$0.01394	\$0.01276
Miles per revenue ton	393.15	402.39
Ton-miles—Revenue freight per mile of road	1,317,500	1,288,376
Ton-miles—All freight per mile of road	1,451,268	1,405,767
*Gross ton-miles of cars, contents and cabooses	77,219,463,322	73,203,829,127
Net ton-miles of freight (Revenue and non-revenue)	35,103,861,182	33,600,657,164
*Train-hours in freight road service	2,805,604	2,681,868
PASSENGER TRAFFIC:		
Passengers carried	16,819,857	18,678,371
Passengers carried one mile	1,407,724,037	1,620,839,960
Passenger revenue	\$39,889,206	\$43,287,240
Revenue per passenger	\$2.37155	\$2.31751
Miles per revenue passenger	83.69	86.78
Revenue per passenger mile	\$0.02834	\$0.02671
Passenger-miles per mile of road	58,198	67,812
NET RAILWAY OPERATING INCOME:		
Gross revenue per mile of road	\$22,896.58	\$20,949.01
Gross railway operating charge per mile of road	\$21,224.52	\$20,716.94
Net railway operating income per mile of road	\$1,672.06	\$232.07

*1949 figures exclude Newfoundland District.

REVENUE TONNAGE BY COMMODITIES

	Year 1950	Year 1949	Increase or Decrease	
	Tons	Tons	Tons	Per Cent
AGRICULTURAL PRODUCTS:				
Wheat	4,939,977	5,753,131	813,154	14.13
Corn	474,822	557,987	83,165	14.90
Oats	1,116,847	1,342,509	225,662	16.81
Barley	1,000,342	1,171,881	171,539	14.64
Rye	122,299	180,778	58,479	32.35
Flaxseed	45,771	102,362	56,591	55.29
Other Grain (including dried peas, beans, soya beans)	188,804	178,209	10,595	5.95
Flour	923,044	918,830	4,214	.46
Other Mill Products	1,663,433	1,667,837	4,404	.26
Hay and Straw	138,770	130,326	8,444	6.48
Cotton	93,001	81,093	11,908	14.68
Apples (fresh)	86,892	86,545	347	.40
Other Fruit (fresh)	279,946	304,038	24,092	7.92
Potatoes	398,191	400,370	2,179	.54
Other Fresh Vegetables	242,692	248,462	5,770	2.32
Other Agricultural Products	785,983	766,211	19,772	2.58
Total	12,500,814	13,890,569	1,389,755	10.01
ANIMAL PRODUCTS:				
Horses	32,775	22,790	9,985	43.81
Cattle and Calves	275,195	320,044	44,849	14.01
Sheep	8,783	11,642	2,859	24.56
Hogs	122,477	133,801	11,324	8.46
Poultry (live)	278	86	192	223.26
Dressed Meats or Dressed Poultry (fresh or frozen)	210,284	223,876	13,592	6.07
Dressed Meats (cured or salted)	35,871	41,094	5,223	12.71
Other Packing House Products (edible)	70,147	86,703	16,556	19.10
Eggs	12,139	35,821	23,682	66.11
Butter	36,578	34,950	1,628	4.66
Cheese	25,772	35,036	9,264	26.44
Wool	33,593	26,701	6,892	25.81
Hides and Leather	74,008	86,577	12,569	14.52
Other Animal Products (non-edible)	97,668	82,054	15,614	19.03
Total	1,035,568	1,141,175	105,607	9.25
MINE PRODUCTS:				
Anthracite Coal	2,543,195	2,308,810	234,385	10.15
Bituminous Coal	11,339,124	8,918,681	2,420,443	27.14
Sub-Bituminous Coal	1,340,030	1,238,632	101,398	8.19
Lignite Coal	723,653	593,040	130,613	22.02
Coke	926,845	797,968	128,877	16.15
Iron Ores and Concentrates	1,374,878	1,275,273	99,605	7.81
Copper Ore and Concentrates	236,386	248,205	11,819	4.76
Other Ores and Concentrates	2,598,251	2,359,510	238,741	10.12
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	602,087	556,352	45,735	8.22
Sand and Gravel	2,185,148	2,163,794	21,354	.99
Stone (crushed, ground, broken)	2,443,199	2,361,081	82,118	3.48
Slate, Dimension or Block Stone	89,378	139,120	49,742	35.75
Crude Petroleum	1,126,383	775,857	350,526	45.18
Asphalt (natural, by-product petroleum)	384,877	353,924	30,953	8.75
Salt	457,833	438,754	19,079	4.35
Other Mine Products (not fully processed)	2,210,817	1,892,538	318,279	16.82
Total	30,582,084	26,421,539	4,160,545	15.75
FOREST PRODUCTS:				
Logs, Posts, Poles, Piling	601,668	641,144	39,476	6.16
Cordwood and Other Firewood	257,559	274,551	16,992	6.19
Ties	47,009	49,434	2,425	4.91
Pulpwood	4,232,336	4,659,091	426,755	9.16
Lumber, Timber, Box, Crate and Cooperage	4,956,332	4,061,996	894,336	22.02
Plywood	95,003	69,364	25,639	36.96
Other Forest Products	317,578	316,918	660	.21
Total	10,507,485	10,072,498	434,987	4.32

REVENUE TONNAGE BY COMMODITIES—*Continued*

	Year 1950	Year 1949	Increase or Decrease Per Cent	
	Tons	Tons	Tons	Per Cent
MANUFACTURES AND MISCELLANEOUS:				
Gasolene	1,992,205	1,998,091	5,886	·29
Petroleum Oils and Petroleum Products (except asphalt and gasolene)	1,824,254	1,554,394	269,860	17·36
Sugar	306,022	360,599	54,577	15·14
Iron, Pig and Bloom	599,476	454,026	145,450	32·04
Rails and Fastenings	56,724	66,193	9,469	14·31
Iron and Steel (bar, sheet, structural, pipe) ..	1,621,418	1,722,369	100,951	5·86
Castings, Machinery and Boilers	304,410	300,152	4,258	1·42
Cement	933,373	1,055,321	121,948	11·56
Brick and Artificial Stone	341,498	338,701	2,797	·83
Lime and Plaster	562,267	519,650	42,617	8·20
Sewer Pipe and Drain Tile	58,027	53,905	4,122	7·65
Agricultural Implements and Vehicles other than Autos	349,326	393,310	43,984	11·18
Automobiles, Auto Trucks and Auto Parts	2,461,632	1,925,530	536,102	27·84
Household Goods and Settlers Effects	15,497	17,392	1,895	10·90
Furniture	63,571	54,504	9,067	16·64
Beverages	305,954	368,129	62,175	16·89
Fertilizers, all kinds	995,762	1,122,363	126,601	11·28
Newsprint Paper	2,082,046	1,931,918	150,128	7·77
Other Paper	370,596	356,079	14,517	4·08
Paperboard, Pulpboard and Wallboard (paper) ..	637,100	513,564	123,536	24·05
Woodpulp	1,351,377	974,793	376,584	38·63
Fish (fresh, frozen, cured, etc.)	95,407	109,723	14,316	13·05
Canned Goods (all canned food products)	605,860	592,620	13,240	2·23
Other Manufactures and Miscellaneous	6,959,614	6,453,670	505,944	7·84
Merchandise (all L.C.L. Freight)	1,845,291	2,083,193	237,902	11·42
Total	26,738,707	25,320,189	1,418,518	5·60
Grand Total	81,364,658	76,845,970	4,518,688	5·88

OPERATED MILEAGE, 31st DECEMBER, 1950

Territory	Owned	Leased	Trackage	Total
OPERATED ROAD MILEAGE				
Atlantic Region	* 3,792.08	6.41	82.95	3,881.44
Central Region	7,140.09	347.91	27.86	7,515.86
Western Region	11,337.74	34.84	92.54	11,465.12
Grand Trunk Western Lines	904.35	9.50	60.30	974.15
Central Vermont Lines	237.92	125.18	58.73	421.83
Total First Main Track	23,412.18	523.84	322.38	24,258.40
Lines in Canada	22,054.48	216.79	198.96	22,470.23
Lines in United States	1,357.70	307.05	123.42	1,788.17

*Includes Temiscouata Railway 100.75 miles.

OPERATED MILEAGE ALL TRACKS

First Main Track	23,412.18	523.84	322.38	24,258.40
Second Main Track	1,223.71	9.34	85.42	1,318.47
Third Main Track	27.95		3.49	31.44
Fourth and Other Main Tracks	10.78		5.09	15.87
Spurs, Sidings and Yard Tracks	6,062.34	169.07	1,266.87	7,498.28
Total all Tracks	*30,736.96	702.25	1,683.25	33,122.46

*Includes Temiscouata Railway First Main Track 100.75 miles; Spurs, Sidings, etc., 9.79 miles.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:—		Operating expenses were disbursed:—	
	1950-%	1949-%	1950-%	1949-%
Labour	53.39	56.82	59.85	59.46
Fuel	9.95	11.00	11.16	11.51
Other Expenses	25.86	27.74	28.99	29.03
Total Operating Expenses..	89.20	95.56	100.00	100.00
Available for Taxes and Other Accounts	10.80	4.44		
Total	100.00	100.00	100.00	100.00
Maintenance of Way Accounts.	16.39	17.66	18.38	18.48
Maintenance of Equipment Accounts	20.61	21.35	23.11	22.35
Traffic Accounts	1.71	1.82	1.91	1.90
Transportation Accounts	45.28	49.07	50.76	51.35
Miscellaneous Accounts .....	.98	1.15	1.10	1.20
General Accounts	4.23	4.51	4.74	4.72
Total Operating Expenses..	89.20	95.56	100.00	100.00

EMPLOYEES AND THEIR COMPENSATION

Year	*Average Number of Employees	*Total Payroll	Average Per Employee
1939.....	78,129	\$122,354,101	\$1,566
1949.....	111,806	311,041,852	2,782
1950.....	112,874	318,208,185	2,819

*Includes employees of railway, express and communication systems. Excludes hotel and subsidiary company employees.

CANADIAN NATIONAL SERVICE IS WORLD-WIDE

The Canadian National maintains offices in the United States, Europe, Australia and New Zealand, to render helpful service and give information in connection with the traffic and other interests of the Company and of Canada generally. The principal offices of this kind are located at the following points:

UNITED STATES

Battle Creek	Mich.
Birmingham	Ala.
Boston	Mass.
Buffalo	N.Y.
Cedar Rapids	Iowa
Chicago	Ill.
Cincinnati	Ohio
Cleveland	Ohio
*Detroit	Mich.
Flint	Mich.
Grand Rapids	Mich.
Kansas City	Mo.
Los Angeles	Cal.
Mason City	Iowa
Memphis	Tenn.
Milwaukee	Wis.
Minneapolis	Minn.
New Haven	Conn.
New Orleans	La.
*New York	N.Y.
Omaha	Neb.
Philadelphia	Pa.
Pittsburgh	Pa.

Portland	Me.
Portland	Ore.
St. Albans	Vt.
St. Louis	Mo.
St. Paul	Minn.
Saginaw	Mich.
San Francisco	Cal.
Seattle	Wash.
South Bend	Ind.
Toledo	Ohio
Tulsa	Okla.
Washington	D.C.

EUROPE

Antwerp	Belgium
Glasgow	Scotland
Liverpool	England
*London	England
Paris	France
Southampton	England

AUSTRALIA AND NEW ZEALAND

Melbourne	Australia
Sydney	Australia
Wellington	New Zealand

*Industrial Development representatives located at these points.

That, I think, Mr. Chairman, completes the presentation of the report.

The CHAIRMAN: In order that our committee records may be complete, is it the wish of the committee that there should be included in Minutes of Proceedings and Evidence the financial statements and all the statistical material extending from page 24 to the end of the report?

Mr. FULTON: I think our custom in the past has been, Mr. Chairman, to take up the report page by page, and as we come to each section to include it in the minutes of evidence so that it will be there related to the discussion which may follow it.

The CHAIRMAN: That is quite satisfactory. If you would rather have it that way.

Mr. MUTCH: It may have been the practice, but I do not think it creates any precedent.

The CHAIRMAN: I just felt that for future reference it might be more convenient to anyone wanting the information to find all of the statistical information in the one place. Are you willing that that should be done, Mr. Fulton?

Mr. FULTON: Yes. I just thought we had done it in the past in the other way, but I am not prepared to argue about it. It does not seem to me to be important which way we do it.

The CHAIRMAN: Very well. All those in favour of it being introduced immediately following the narrative will please signify? Those opposed?

Carried.

In taking up the report, is it the wish of the committee that we start at page 6 and cover a heading at a time, starting with "Review of Operations" and dealing with the two sub-headings there, namely "freight rates" and "volume of rail traffic", and then carry on in that way?

Mr. FULTON: Yes, I think so except that I would like to be permitted to ask a question relative to page 3. Perhaps Mr. Gordon has not got the information at the moment and if so he might furnish it to us later. I would be interested in learning the dates of appointment of the various members of the Board of Directors.

Mr. GORDON: I do not think I have that information available at the moment but it could be obtained very readily.

The CHAIRMAN: Let us start at page 6 with "Review of Operations, freight rates".

Mr. CARTER: I notice the item "Taxes, equipment rents and other income accounts", and I notice that the amount for 1950 is lower than that for the year before.

The CHAIRMAN: I think there is an explanation about that given on page 9.

Mr. CARTER: It may be given in the report but I have missed it.

Mr. GORDON: On page 9 of the report it is pointed out that there is a reduction of \$1,169,015 in the net debit arising from this group of accounts. And it says:

"Increase in use of foreign lines' freight cars cost the company \$1,936,957."

What you are really interested in is probably the item on page 9 under the heading "Other income accounts". That difference between the cost of freight cars less what we spend in collecting premiums on unamortized discounts, etc., will net out the difference between those two figures.

Mr. FULTON: Could I suggest that we go back to pages 4 and 5 where there is an interesting letter from the president submitting his report. There are some comments by the president as to which I would like to ask some questions.

The CHAIRMAN: Would you like this to be taken up paragraph by paragraph at a time, or shall we take the whole letter under one heading?

Mr. FULTON: I think the whole thing might be taken at once, Mr. Chairman.

Mr. GILLIS: I think that a paragraph at a time would be better. It would save us a lot of time in roaming around.

Mr. MUTCH: I too have some comments to make of my own arising out of that letter. I was going to ask whether it would be desirable to deal with the letter, or to raise the points when we come to them in connection with the general report. I think we could discuss almost anything that we have in mind on the basis of this letter and it is a question of whether we are letting ourselves in for the possibility of doing so twice. I have two or three question marks on this letter, but I do not care when I ask them now.

The CHAIRMAN: I believe the whole matter could be discussed on the letter, and that is the reason I suggested we deal with the report first as we have done in other years. You see, with a few years' experience here I hesitate to change the existing practice without a pretty good cause being shown.

Mr. MUTCH: I mean to bring up the matter raised in that letter under the appropriate items of the report.

The CHAIRMAN: Perhaps Mr. Gordon might add a word here.

Mr. GORDON: As I said in my introductory remarks, Mr. Chairman, the letter of transmittal is designed to give scope for generalized comment relating to managerial problems and policies which did not fit in appropriately to the single analysis of the year 1950. Therefore, with respect, I would suggest that if your question relates to a matter affecting the 1950 report, it would not be appropriate under the letter of transmittal; but if it affects more generalized policies outside of 1950 operations, we might save time by dealing with it in relation to that letter. However, that is merely a suggestion.

The CHAIRMAN: In view of what Mr. Gordon has said, is it the wish of the committee that we should first study the actual performance, namely the narrative and then, as a final task, have general questions on the report, after we have familiarized ourselves with the details?

Mr. CARTER: I wonder if it would not save time if we deferred pages 4 and 5 until we had dealt with the letter?

The CHAIRMAN: I suggested that very thing. Let us start with "Review of Operations, freight rates."

Mr. MUTCH: Serving notice that we will come back to the letter, Mr. Chairman?

The CHAIRMAN: Oh, yes.

Mr. FRASER: In connection with this item of "Taxes, equipment rents and other income accounts," what taxes are there, and what would they cover?

Mr. GORDON: They would cover property and other taxes. I will give you the details in just a moment. They would include such items as unemployment insurance, excise stamps, and municipal taxes in a series of cities right across Canada. It also includes taxes which are payable to the United States government, where we are subject to income tax.

Mr. FRASER: That would be where your lines go into the states?

Mr. GORDON: Yes, the Grand Trunk Western and the Central Vermont particularly. It includes our payments under the Railroad Retirement Tax Act under the United States legislation and unemployment insurance there as well; and also some United States state taxes which we have to pay, where we operate through various states of the union.

Mr. FRASER: Are they very heavy?

Mr. GORDON: In the year 1950 they totalled \$1,163,659.

Mr. FRASER: Is that in Michigan?

Mr. GORDON: Michigan, Illinois, and Wisconsin are the principal ones, with a small amount in Indiana.

Mr. FRASER: But you ship into there and out again?

Mr. GORDON: We just pass through it. It is not a very heavy tax in Indiana.

Mr. FRASER: "Equipment rents"; that would be in connection with American freight cars, would it not, Mr. Gordon?

Mr. GORDON: Yes.

Mr. FRASER: What would the rentals be on our cars in the States, or would they come under a different section? Are they off-set in a contra-account?

Mr. GORDON: Perhaps Mr. Gracey will answer that question.

Mr. GRACEY: The figure shown is the net as between our system lines and foreign lines.

Mr. FRASER: You have a contra-account?

Mr. GRACEY: Yes.

Mr. FRASER: We owed them more than they owed us?

Mr. GRACEY: That is what the situation was in 1950.

Mr. FRASER: Are your rentals the same?

Mr. GRACEY: Yes. There is a standard rate on freight cars.

Mr. FRASER: But it is not the same for passenger cars?

Mr. GRACEY: Yes, but there is very little interchange between foreign lines.

Mr. FRASER: Is there a difference between wooden cars and steel cars?

Mr. GRACEY: No. It is a per diem rate. There are some exceptions on cars with a mileage basis, such as tank cars and so on.

Mr. GORDON: The per diem rate was increased starting from November 1949, but that applies in Canada as well as in the United States.

Mr. FRASER: When the cars are over in the United States on a siding, would you still get your rental for them?

Mr. GRACEY: Yes, sir.

The CHAIRMAN: May I complete Mr. Fraser's inquiry. There is a net in regard to these car rentals. It is only a composite figure which is shown in the statement.

Mr. GRACEY: The net is shown on page 26 of the report, sir.

The CHAIRMAN: Yes.

Mr. FRASER: What item would it be under?

Mr. GRACEY: "Equipment rents, not debit."

Mr. GORDON: It amounts to \$7,209,310. You will find it below the heading "Net operating revenue." You will see the headings starting with "Taxes, equipment rents—net debit, \$7,209,310."

Mr. GRACEY: There are also some smaller items of equipment rent in that total figure. I can break down the freight car figure for you, if you wish.

Mr. FRASER: No. I do not want it but you have a difference between what is paid in Canada and what the company would pay in the States. It is the same price in Canada?

Mr. GRACEY: That is right.

Mr. GORDON: Do you wish to have it?

Mr. FRASER: Yes.

Mr. GRACEY: The amount paid to foreign lines, by Canadian lines, was \$13,057,786; to United States lines \$7,196,500; making a total of \$20,254,286.

Now you wish to have what was received from the foreign lines, do you not?

Mr. FRASER: You could work it out, I suppose.

Mr. GRACEY: Yes.

Mr. GORDON: You had better give him the "Received".

Mr. GRACEY: Received from foreign lines: Canadian lines: \$12,622,168; United States lines, \$4,919,046; making a total of \$17,541,214.

Mr. FRASER: Thank you.

Mr. GRACEY: Then, in addition we make payments to private lines such as oil companies, and refrigerator lines.

Mr. FRASER: Those would be lines which own their own cars or companies which own their own cars?

Mr. GRACEY: That is right, sir.

Mr. FRASER: Yes, on those cars or tankers; you rent them from those companies in order to carry oil other than for those companies, actually?

Mr. GRACEY: We do not say that we rent them. There is a mileage paid on the cars. It is a standard arrangement between those companies and the railroad.

Mr. FULTON: What is the figure, Mr. Gracey?

Mr. GRACEY: On Canadian lines the figure is \$3,262,722; and on United States lines, it is \$777,440.

Mr. GORDON: Might I suggest that we be permitted to supply a table which could be included at this point?

The CHAIRMAN: Thank you. I think that would be very helpful.

Mr. GRACEY: Very well, Mr. Chairman. The table reads as follows:

HIRE OF FREIGHT CARS

	Canadian Lines	United States Lines	Total
Paid to Foreign Lines.....	\$13,057,786	\$ 7,196,500	\$20,254,286
Paid Private Car Lines	3,262,722	777,440	4,040,162
	<u>\$16,320,508</u>	<u>\$ 7,973,940</u>	<u>\$24,294,448</u>
Received from Foreign Lines	\$12,622,168	\$ 4,919,046	\$17,541,214
Net Debit Balance	\$ 3,698,340	\$ 3,054,894	\$ 6,753,234

Mr. McLURE: Under the heading of "Taxes", do they include the sales tax of 8 per cent?

Mr. GRACEY: No, sir.

Mr. McLURE: You do not pay any sales tax on your purchases?

Mr. GORDON: Oh, yes, we do. We pay the sales tax.

Mr. FRASER: It would be quite a material item.

Mr. McLURE: It is not separated from the cost of materials?

Mr. GORDON: No. The federal sales tax in the year 1950 was \$7,300,251; the province of Quebec sales tax was \$101,643; the city of Montreal sales tax was \$27,118; and the city of Quebec sales tax was \$1,333. The provincial tax on gasoline was \$545,267. And there are also a number of other taxes such as the diesel fuel oil tax, the educational tax in Saskatchewan, the sales tax in British Columbia and so on. If you would like to have a table, I would be glad to supply one.

The total amount paid by the Canadian National Railway system for duty, exchange and taxes in the particular year 1950 amounted to \$11,788,908. I will be glad to put that table on the record at this point.

The CHAIRMAN: Very well.

Mr. GORDON: The table reads as follows:

STATEMENT SHOWING AMOUNTS PAID BY CANADIAN NATIONAL RAILWAYS
AND ITS SUBSIDIARIES EXCLUDING T.C.A. FOR DUTY, CURRENCY
EXCHANGE, AND SALES TAXES ON PURCHASES OF ALL
MATERIALS, INCLUDING FUEL, FOREST PRODUCTS
AND NEW EQUIPMENT

	1949	1950
Duty	\$ 2,364,654	\$ 3,262,483
Currency Exchange (General Materials only).....	96,721	345,601
Federal Sales Tax (estimated).....	8,203,036	7,300,251
Province of Quebec Sales Tax.....	101,070	101,643
City of Montreal Sales Tax.....	20,173	27,118
City of Quebec Sales Tax.....	1,000	1,333
Provincial Taxes on Gasoline (estimated).....	555,264	545,267
Province of New Brunswick Soc. Service and Educational Tax...	—	9,241
Province of Quebec Diesel Fuel Oil.....	4,507	4,936
Province of Saskatchewan Educational Tax.....	27,226	40,749
Province of British Columbia Sales Tax (Fuel only).....	31,822	31,590
Prov. of Br. Columbia Soc. Security and Mun. Aid Tax.....	60,966	39,305
Total Canadian Taxes.....	\$ 9,005,064	\$ 8,101,433
U.S. Federal Tax on Lubricating Oil.....	\$ 15,355	\$ 15,748
U.S. Federal Tax on Gasoline.....	4,026	4,694
U.S. State Taxes on Gasoline.....	2,400	2,929
Erie County (New York State) Use Tax.....	897	599
Connecticut Sales & Use Tax.....	—	1,925
State of Michigan Sales Tax (estimated).....	8,897	7,322
State of Illinois Occupational Tax.....	—	337
State of Michigan Use Tax.....	40,568	45,837
Total United States Taxes.....	\$ 72,143	\$ 79,391
Total Canadian and United States Taxes.....	\$ 9,077,207	\$ 8,180,824
Grand Total—Duty, Exchange and Taxes.....	\$11,538,582	\$11,788,908

Mr. GILLIS: What about box cars? There has been quite an argument in the House about them. Can you give us some idea of how many of our box cars were in the United States as of two weeks ago?

Mr. GORDON: I have the total right before me here.

Mr. BENEDICKSON: Mr. Chairman, I think the answer was provided in the House on Thursday or Friday.

Mr. GILLIS: That may be, but I think it is a good idea to have it here as well.

Mr. GORDON: I think it might be of interest to the committee to know that on March 1 the Canadian National had a total of box cars in the United States of 18,413, while the United States had on the Canadian National system 8,264, making an adverse balance of 10,149.

But as of April 12, which is the most recent date I have, the Canadian National in the United States had 16,018 while the United States had on the Canadian National 10,474 which shows an adverse balance of 5,544.

In other words, our adverse balance had improved to the extent of 4,600 cars. I have not got the figures before me for the Canadian Pacific.

Hon. Mr. CHEVRIER: Perhaps I could submit that information. I have before me now the figures for both railways. Beginning with the number of Canadian box cars on United States lines on February 16, the number was 29,989; while United States box cars on Canadian lines numbered 13,544; and the unfavourable balance to Canadian lines at that date was 16,445.

But on April 13, the number of Canadian box cars on United States lines was 28,620, while the number of United States cars on Canadian lines was 18,129; and the unfavourable balance to Canadian lines was 10,491.

When I put my statement on *Hansard* the other night I said that the position was almost back to normal, with an improvement of 8,000 cars. That is now amended by an additional 500, or almost 500 cars. The improvement is greater by an additional 500 cars as of April 13.

Mr. GILLIS: And it is continuing to improve?

Hon. Mr. CHEVRIER: Oh, definitely.

Mr. GORDON: It is rapidly improving now; but with other forms of equipment we have had a very substantial credit balance on our lines all through this period so that when the grand total is figured out, the adverse balance has not been very great.

Hon. Mr. CHEVRIER: If you take into consideration all cars, the balance is in our favour.

Mr. GORDON: It usually is, yes.

Hon. Mr. CHEVRIER: I had in my notes, Mr. Chairman, the names and the dates of appointment of the directors of the Canadian National. May I put them on the record now?

The CHAIRMAN: Very well.

Hon. Mr. CHEVRIER: The appointment of Mr. Donald Gordon was as of the 1st of January, 1950. Mr. Wilfrid Gagnon's appointment was extended from the 1st of October 1948 for three years. Mr. Gagnon is from Montreal. Mr. J. A. Northey's appointment was also extended from the 1st of October 1948 for three years. Mr. H. J. Symington's appointment was extended from the 1st of October 1950 for three years. Mr. B. L. Daly's appointment was extended from the 1st of October 1950 for three years; Mr. R. B. Brennan's appointment was extended from the 1st of October 1949 for three years; and Mr. W. J. Parker's appointment was made on the 1st of November 1949 for three years.

Mr. FULTON: Does your memorandum show the date when these directors were first appointed?

Hon. Mr. CHEVRIER: No, it does not, but I could get the information for you.

Mr. FULTON: Mr. Gordon said he would get us that information.

Mr. MOTT: Might I ask how these directors are appointed? Are they elected?

Hon. Mr. CHEVRIER: They are appointed by the Governor in Council on the recommendation of the Board of Directors of the Canadian National Railways.

Mr. MOTT: The farthest place west from which you have a director is Winnipeg.

Mr. GILLIS: They are not selected on a geographic basis such as the cabinet.

Hon. Mr. CHEVRIER: No.

Mr. MUTC: After you get west of Winnipeg, what does it matter?

Mr. MOTT: With respect to these various taxes, the sales tax, the Montreal city tax, Quebec city tax, and so on, might I have those figures again? I take it there are only two cities, and they are in Quebec, which are allowed to charge a sales tax, in all Canada?

Mr. GORDON: This table gives the items in detail. Perhaps I had better go over them again. There is a province of Quebec sales tax which cost us, in the year 1950, \$101,643; then there is a city of Montreal sales tax which cost us \$27,118; and there is a city of Quebec sales tax which cost us \$1,333.

In addition there are provincial taxes on gasoline which cost us \$545,267; there is a province of New Brunswick social service and education tax which cost us \$9,241; there is a province of Quebec diesel fuel oil tax which cost us \$4,936; there is a province of Saskatchewan educational tax which cost us \$40,749; there is a province of British Columbia sales tax on fuel which cost us \$31,590; and there is a province of British Columbia social security and municipal aid tax which costs us \$39,305.

In addition there is a federal sales tax which cost us \$7,300,251. Those are the Canadian taxes.

Mr. MOTT: It was just the sales taxes, in which I was interested.

Mr. GORDON: I believe you have got them in the figures which I have given to you.

Mr. MOTT: I had the understanding that there was only one province which allowed its cities to impose a sales tax.

Mr. GORDON: Oh, there is a sales tax in British Columbia province as well.

Mr. MOTT: Yes, but it is not a city sales tax.

Mr. GORDON: No.

The CHAIRMAN: Are there any further questions in regard to taxes? I think it would be preferable if we could clear up one subject at a time and not to hark back to it because the scope of this inquiry is so wide that if we are not careful, or if we fail to keep it orderly, we shall never finish.

Mr. GILLIS: The three provinces mentioned are following a practice which discriminates against the system as compared with the other provinces. The amount of money paid to Quebec by way of sales tax by the Canadian National is quite a large amount.

The CHAIRMAN: That has nothing to do with the federal government. The federal government has nothing to do with a provincial tax levied on Canadian National Railways. That is a matter which comes under the jurisdiction of the province.

Mr. GILLIS: Except that the Canadian National Railways as a federal entity is losing that amount of money by way of provincial taxes. That is my point.

The CHAIRMAN: Under the British North America Act a province has the right to impose direct taxation and there is nothing we can do about it.

Mr. GILLIS: It might not be a bad idea for the minister to get a change made in the British North America Act.

Hon. Mr. CHEVRIER: We are having enough difficulty getting the British North America Act amended as it is now.

Mr. MOTT: It is not so much a provincial tax as a city tax.

The CHAIRMAN: The cities derive their authority from their provincial government and there is nothing we can do about it.

Mr. MOTT: There is only one province in Canada, and I think it is Quebec, where a city can charge a sales tax.

The CHAIRMAN: You will have to take that up with the provincial legislature.

Mr. MOTT: The money is being spent there and it is being charged to sales tax.

Hon. Mr. CHEVRIER: I am afraid that the Canadian National Railways have no other alternative than to pay these taxes.

Mr. MOTT: I know.

Mr. MUTC: The cities derive their power to impose taxes from the legislature of the province. And it so happens that the only province which permits its cities to charge a sales tax is the province of Quebec. But all the other provinces have that power if they elect to use it.

Mr. MOTT: I just wanted to support Mr. Mutch on this particular point in his statement. He has explained some points which are I think important. He is right when he says—I think it is under the B.N.A. Act—that some of the provinces were allowed to continue with the sales tax while others were not; that is, those who had it were allowed to continue it; and among those were

Quebec City and the city of Montreal; and as a result of those circumstances, under the B.N.A. Act they are allowed to charge a sales tax, where it was in effect at the time, but that privilege does not extend to other parts of Canada.

Mr. GILLIS: I think, Mr. Chairman, there is a very vital principle at stake here. There are only three provinces in Canada which get a revenue from the Canadian National Railways by way of a provincial tax. In contrast, federal properties right across Canada are exempt from taxes, although in some sections of the country the federal government does pay a certain amount of money in lieu of taxes; however, that is a federal arrangement. Now, secondly, employees of the Canadian National Railways in provinces that have specific Acts with regard to wages and so forth are excluded from the wage agreement laid down provincially and come under the national code. I think this question here demands examination. I believe there has to be some general arrangement with provincial governments in this matter of taxation. You just take the figures that Mr. Gordon has put on the record and it comes to a nice little chunk of money paid to the provinces by the railway in the form of this sales tax. If all the other provinces of Canada are going to have unrestricted rights to impose taxes on the road it is going to add considerably to their operating expense.

Mr. GORDON: There is a point there. These taxes we are referring to are not applicable to the Canadian National Railway only.

Mr. GILLIS: I understand that.

Mr. GORDON: They are applicable to every company operating and doing business in the particular jurisdiction where it is applicable. I do agree with you, if there is any attempt to make a discriminatory attack against the Canadian National then there is a vital point; but so long as we are operating on the basis that we meet local conditions I think we have to co-operate with responsible taxing authorities in any of the provinces or cities in which we operate.

Mr. GILLIS: Yes, I agree with you. As far as you are concerned there is nothing you can do about it. It is a matter which I think devolves upon the federal authority; and, in view of the fact that it is a federal matter I think that some arrangement should be worked out with the provinces that would be equitable. There is no reason why a provincial government should have an unrestricted right to impose taxation. It does not do that with federal buildings in the different parts of the country. I am not going to argue that we can change it here, but I think the minister and yourself should take a look at this sales tax question. It seems to me to be a very important one where the operation of the road is concerned.

Mr. GEORGE: It seems to me, Mr. Chairman, that there are two points involved here; the first point is the investigation of the present sales tax; and the second, the right to tax all public buildings, including the C.N.R. properties, and the fact that the payment of all such taxes comes out of the consolidated revenue fund.

The CHAIRMAN: Are there any further questions or comments with regard to taxation?

Mr. McLURE: I certainly would like to say a word on the question of flat cars.

The CHAIRMAN: Just a minute, Mr. McLure; are there any further questions with regard to taxation? If not, shall I declare the item carried?

Carried.

We are not on box cars—Mr. McLure.

Mr. McLURE: Someone referred to box cars and this question of shortages. I might say, by way of appreciation at this time—in the past I have always

been complaining about reefer cars, and you will recall that I worked hard on that last year—just recently we had a new industry come to our province and we had a shortage of box cars for the hauling of pulp wood. I want to say to the minister (Hon. Mr. Chevrier) that when I took that question up with him he looked into the matter very carefully and we have had sufficient box cars up to date. It was a new industry and we had to have box cars for the purpose of enabling it to operate, and I think that during the last six weeks we have had 480 box cars loaded and shipped out. I want to make clear to the minister that we appreciated his co-operation.

The CHAIRMAN: That is very good of you, Mr. McLure. Are there any further questions with regard to box cars?

Mr. KNIGHT: Mr. Chairman, there is a statement here under operating performance, on page 17, where you say, "An important unit of performance is the size of the average carload freight shipment. In 1950 this was 28.7 tons, as compared with 28.9 tons in 1949. The decrease of .2 tons is due mostly to the smaller amount of grain transported from Western Canada." I was going to ask Mr. Gordon if there was any relationship between the shortage of box cars and the small amount of grain transported from Western Canada; in other words to what extent is the fact that a small amount of grain was transported from Western Canada due to the shortage of box cars?

Mr. GORDON: It is pretty hard to define that exactly. The major reason for the lower amount of grain transported is due to a combination of factors, the late crop and the wet and tough condition of the wheat, all of which meant that it was not available for transport at the time we had anticipated the movement would get under way. In part the movement of the western grain has been delayed by a shortage of box cars, but I think I can say safely that the Canadian National have been able to meet the requests made upon it by the wheat board.

Mr. KNIGHT: But was the lower amount transported due in any extent to the shortage of box cars at any time?

Mr. GORDON: Mr. Dingle would have more information on that than I have.

Mr. DINGLE: The best way to answer that is in this way: April first of this year we had 18,537 box cars in the west and at the same date last year we had 21,888.

Mr. BENEDICKSON: So this problem of the supply of box cars for the delivery of western grain was not as acute prior to the end of the year as it has been in recent weeks.

Mr. GORDON: It is the recent and the projected period that I am speaking of, but it is true that the last part of the year the wheat crop was delayed and that caused congestion. It came for movement later than we had expected, and that required adjustments which probably had the effect of reducing the amount that we were able to move. The figure which has been reported is the approximate figure.

Mr. KNIGHT: I understand there have been in all 2,000 fewer box cars in the west this year than a year ago. Is that right?

Mr. DINGLE: That is correct.

Mr. KNIGHT: In view of the fact that the crop this year in point of volume is much greater—

Mr. GORDON: I think it is quite fair to say that there is a very anxious problem in the matter of moving the wheat crop in the immediate future.

Mr. KNIGHT: I am well aware of that. Shall we have help?

Mr. GORDON: Yes, in the immediate future. We have had discussions with the wheat board about it and arising out of those discussions I think the minister can tell you that a special departmental committee has been set up to do everything possible to take whatever action may be open to improve that situation.

Mr. KNIGHT: Am I to take literally your statement of a few minutes ago, Mr. Gordon, that as far as the Canadian National was concerned that this condition of our inability to move the wheat is in no way attributable to a shortage of box cars on C.N.R. at least?

Mr. GORDON: I think I can say that so far as the Canadian National is concerned, that we have had box cars available as they were needed, by and large; there may have been spotty situations, but by and large we have not got complaints that we have not been able to keep our supply of cars in accord with the grain as it became available.

Mr. KNIGHT: I think that is a matter which should be made known to the farmers of western Canada, because they are certainly under the impression, and so I think are many of the elevator companies, that one of the reasons why they cannot get this grain out in order that it can be protected, or dried, is that very reason that I have been speaking of.

Mr. GORDON: I think perhaps we are getting at cross purposes. The statement I just made had reference to the situation which is referred to in this report, up to the end of 1950. We did have cars available and we were able to meet requirements without delay so far as the Canadian National was concerned. Now, it is true that since then a shortage of box cars has developed, delays that have taken place in the return of box cars from the United States lines, etc. etc. We have been short box cars recently, but that situation is being rapidly corrected, as Mr. Gillis brought out, by an increase in the return movement of box cars from the United States, which has enabled us to move them to western Canada. As a matter of fact, we have been moving large numbers of box cars to western Canada empty on an emergency basis to give, as far as we can do so, the utmost capacity for the movement of wheat.

Mr. KNIGHT: If this situation did not exist up to the end of 1950 how did it happen that it came into existence since 1950 and has continued up to date?

Mr. GORDON: It was due to the general box car shortage which was very acute.

Mr. KNIGHT: Then, the paragraph to which I refer has practically no bearing on the situation; it is due more to the situation in the United States. I take it from what you say that we are now getting it straightened out and we will be in a position to move our wheat.

Mr. GORDON: I'll put it this way, that to the extent that box cars have anything to do with the problem of the moving of the wheat crop, as far as the recent crop is concerned, that the situation is, I cannot say fully corrected, but it is certainly being rapidly corrected as we get the log jam broken in respect of the cars which were frozen in the United States.

Mr. KNIGHT: You referred to the movement of the crop and the amount of grain held in Canada, and we all know that a great deal of it falls into the two classifications of tough or wet. You are aware, of course, that there is a terrible situation there, due to weather, and due in large part to a high moisture content in the grain itself. A great deal of this grain is of the sort that would be held on the farm or at the local elevator, and unless it is moved quickly most of it may be totally destroyed. That is why I am so interested in this question of equipment being available to move it.

Mr. GORDON: I can certainly say this, speaking for the Canadian National, that there is no problem which is receiving more vital and anxious consideration than the responsibility we have in respect of the movement of the crop, and anything that man can do is being done.

Mr. KNIGHT: May I finish my remarks now, Mr. Gordon, by referring to the importance of having this crop moved to points where it can be dried and properly

stored. As you are aware, there are a number of points at which drying equipment is available. For instance, a large party went to Churchill over a recent week-end and at the port of Churchill they saw a very large installation of equipment, equipment with amazing capacity, sufficient to dry a great deal of this grain—that, would of course, depend on the moisture content—as I recall it the plant was capable of handling 20,000 bushels in a day of 24 hours. If that plant were used to capacity it would not take it long to clean up a million bushels or more. I know that it has handled a lot of the grain that has been sold and delivered to Churchill since the beginning of the year. I am assuming, of course, that the wheat which is shipped up there will be wheat of a kind which can be handled by that drying and cleaning equipment. I wonder if the minister would have anything to say about that situation?

Hon. Mr. CHEVRIER: I think, as I indicated to you in the House, Mr. Knight, that it was the Canadian Wheat Board itself which is responsible for the moving of the grain; that the Canadian National Railway would have no part in saying where the grain goes. It is the wheat board itself which calls on the Canadian National Railway with regard to the movement of its equipment, and thus far this is borne out by the fact that all requirements made on the Canadian National Railways for the moving of wheat to Vancouver have been met.

Mr. KNIGHT: Well, my whole point in this matter is to impress upon the railway the urgent necessity for the movement of this wheat, and for the use of the equipment available, and if it is not available it should be made available for the purpose; particularly in view of the emergency, the urgency of the matter—wheat is so perishable. In a normal year wheat, as we generally understand the term, is dry and in good condition. This wheat is not, the crop was late, weather conditions were bad, and much of it is very wet.

Hon. Mr. CHEVRIER: I think we all realize how important and essential it is to move the wheat crop as quickly as possible.

Mr. MUTCH: There is a question I should like to ask and it is this: in the light of the representations which have been made, and in the light of the discussion which has taken place, have representations been made by those possessing drying facilities at the head of the lakes that they have not been able to operate at capacity because of their inability to get grain?

Hon. Mr. CHEVRIER: I understand that these requests were made to the wheat board; not to the operators of the railway.

Mr. MUTCH: The point I am getting at is as to whether or not the drying plants are operating to capacity, or have they been idle for some hours each day.

Hon. Mr. CHEVRIER: Mr. Knight pointed out that the Churchill plant has been idle.

Mr. KNIGHT: What I am concerned about is conditions at the present time.

Hon. Mr. CHEVRIER: The information I have is that they are being fully used.

Mr. KNIGHT: If they are, then that particular matter is being taken care of.

Hon. Mr. CHEVRIER: I am sure that is the case.

Mr. HELME: On this matter of box cars, if you will refer to the statement on railway equipment, page 40, you will see it shows that the system, as of December 31, 1950, had a decrease of 1,293 box cars, as compared to what it had the year previously. On page 12 it shows, for new equipment, that orders had been placed for 5,000 box cars. And now, according to this statement on page 40 (railway equipment) you acquired some 116 new cars during the year, that there were some 116 additions made. The figures also show the shortage of 1,290 box cars, and a page of it shows that you have on order some 5,000 box cars. I wonder,

Mr. Gordon, if you could tell us what the prospects are of getting at least a proportion of that new order for box cars available for handling the present crop? They would have a capacity of roughly two and a half million bushels.

Mr. GORDON: I can tell you this. We placed this order in July or August last year, for 5,000 new box cars. We have been doing everything possible to try to get some of these box cars delivered but we have not received any yet. The companies with whom the orders were placed have not been able to deliver on account of shortages, for instance in steel and other materials they need with which to produce these cars. We hope they will commence delivery to us very shortly. Mr. Dingle reminds me that probably I should not make any commitment on this because we have been disappointed so often in the past. We hope to receive delivery of some of these cars this summer. With regard to the retirements during the year, we show we have retired 1,004 box cars, etcetera. You should keep in mind that when we retire cars they are more or less non-serviceable in any event, and it does not really mean the loss of rolling stock to that extent.

Mr. HELME: One of the big things we are up against in the west is this matter of box cars, and their replacement as quickly as possible is of great importance.

Mr. GORDON: I just say this, that when we come to our budget, and we show you the orders we have placed for equipment, I am sure that this committee will find that they will have no complaint about our not asking for enough.

Mr. HELME: But here you asked for 5,000 cars last year and you did not get any.

Mr. GEORGE: Have any of these cars been made in your own work shop?

Mr. GORDON: We do not ordinarily build new box cars. We use our workshop for keeping them serviceable, they are fully extended on that job now. We have no facilities for building new cars; or, may I put it this way, that we could build new cars if we had nothing else to do in our shop, but our shops at the present time are fully occupied in keeping our rolling stock serviceable.

Mr. HELME: But I see here that you had 116 additions during the year.

Mr. GORDON: Those are deliveries made during the year. I can get you the details of that.

Mr. HELME: On page 12 it says that 490 box cars were delivered; that is not so.

Mr. FULTON: That probably does not relate to the order for 5,000 box cars, of which Mr. Gordon said no deliveries had been received as yet.

Mr. HELME: But there were additions in 1949.

Mr. GORDON: Did you say that was on page 12?

Mr. HELME: No, on page 40.

Mr. GORDON: You said something about the difference between page 12 and this other page?

Mr. HELME: Yes, there at the top of the page—deliveries of new equipment during 1950 were as follows: freight car equipment 490 50-tons box cars.

The CHAIRMAN: Yes, that is under freight car equipment.

Mr. HELME: Yes, freight car equipment received during 1950, and on page 40, it does not show any box cars received at all. Apparently the additions for 1949, as shown at page 40, were 116 box cars; that was for the year 1949, it does not show any additions for the year 1950.

Mr. GORDON: No; that is not right. Where is the statement on the 1949 box cars? Those figures are for the year 1950: additions during the year 1950 it should read; and the retirement during the year and the conversions during the year. Reading the whole thing the figures show that December 31, 1950—

Mr. FRASER: What does that mean?

Mr. GORDON: It is the first item, passenger-freight: 1,955 December 31, 1949; we added 7, we retired 36 and we converted 1, that leaves us with 1,927 as of December 31, 1950. Your point I understand is that, using the same analysis as for box cars, it shows that we lost 1,200 cars.

Mr. HELME: Approximately 1,200.

Mr. GORDON: Yes.

The CHAIRMAN: And the point is that during that year you had additions of 116 box cars, that is shown on page 40.

Mr. HELME: Will that include any equipment you acquired from the Temiscouata Railway on the first of January last year? I see there is a footnote there on page 40 which says you acquired 117 units; of course, that would not be new.

Mr. GORDON: No, it is not new.

The CHAIRMAN: Yes, and I think if you will look at page 12 you will see that there were 60 for Newfoundland.

Mr. GORDON: Yes. I think the real point is this. These are accounting figures, adjusting our stock. The real point is, I think, that we did retire over 1,000 cars during the year 1950. We had orders placed for 5,000 box cars and if we had had normal deliveries they would have been sufficient to compensate our retirement. Now, in placing our orders for box cars we have to keep in mind the exigencies of traffic and the number of box cars due for retirement; and the number of box cars due for retirement was one of the factors that led to our conclusion that we needed 5,000 box cars when we looked at the situation last year.

Hon. Mr. CHEVRIER: I think the overall position is that the Canadian National Railways has improved their number of box cars since the end of the war by about 5,000. The figures I have indicate that in 1945 they had 61,345 and in 1949 they had 69,960.

Mr. HELME: For the last 25 years I remember that we always had difficulty in getting stock and box cars, particularly box cars with which to handle the harvest. We always had difficulty along around the end of the year.

Mr. GORDON: There is always a back log which will cause difficulty, no matter what system you may have.

Mr. HELME: Yes, when you have your harvest in the very best of shape it frequently happens that you are short of cars for loading. I had some 16 years in that particular kind of business myself, and I know that we have always had difficulty in meeting the situation out there.

Mr. GORDON: Of course, when you take a 25 year period you will also get situations where during a period of depression you have a large surplus of box cars. It is always quite difficult to keep rolling stock available for a peak demand. If you were to keep your eye on the peak you would very much overstock your railways.

Mr. HELME: But we seem to have had particular difficulty this year. There has got to be an improvement somewhere if we are going to get this crop out.

Mr. GORDON: I repeat, there is nothing here that shows that as far as the Canadian National is concerned there is a shortage of box cars, or that that is a material factor in the emergency situation. Each year we have a big problem in moving the grain crop. That is one of our big problems, there is no doubt about that. It is a big problem moving grain at any time.

Mr. KNIGHT: As I said, Mr. Chairman, it is a more or less chronic condition, particularly in years when you have a big crop. I do not want to go back too far, but I remember vividly in 1916 the huge piles of wheat out on the stubble

with the horses pawing it over, and so on. Wheat was not so valuable that year, that was wheat that could be rained on, and snowed on, and pawed over, and it still would be not suffering any particular damage. Wheat this year is different, this is a bad year. I think Mr. Helme and I are vitally interested in urging upon the railroad, and upon this government, that this is an urgent situation, a situation which needs attention.

Hon. Mr. CHEVRIER: I think my comment in the House the other evening showed that it was getting more than ordinary attention when I said that a committee of transportation agencies had been established for the purpose of dealing with the movement of wheat both by the railways and by steamships; and because of the representations made by the Minister of Trade and Commerce to us arrangements are now available for the movement of wheat on the lakes just as soon as the navigation season opens.

Mr. KNIGHT: I think the minister made that statement. I hope he will forgive me for stressing the urgency of the situation.

Mr. GORDON: May I just make this point. I was not discussing the general problem of the western wheat crop. That is being handled by the wheat board. The only question for which the C.N.R. is answerable is whether or not our facilities have been adequate to meet the request of the wheat board. I say to you that by and large it has been; there have been periods when that has not been the case. I can also tell you that during the latter part of last year we had over 2,500 box cars tied up full of grain we could not unload because of the congestion at the lakehead elevators, and there was nothing we could do about that. I am simply pointing out to you, as I have already said, that wheat constitutes one of our greatest problems; it is one of our biggest headaches. And I say, so far as my responsibility to this committee is concerned, I am simply pointing out to you that in dealing with the requests that have been made for our equipment we have a good record, but there are other difficulties in connection with it that are not our responsibility.

Mr. KNIGHT: Mr. Chairman, may I be permitted one more observation? I see it is almost one o'clock. Reference has been made to the fact that it is difficult to obtain box cars; I mean, due to the shortage of materials, and so on. Might I ask the minister what action the government is taking to see that the car companies who are supplying the railroads get the steel?

Hon. Mr. CHEVRIER: My deputy minister is chairman of a committee which is handling that matter and he is going to Washington this week to deal with that very matter, so the question is being carefully looked into by the government.

Mr. KNIGHT: That is fine.

The CHAIRMAN: Gentlemen, we will adjourn until 4 o'clock.

AFTERNOON MEETING

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. McLURE: Before you start, Mr. Chairman, I would like to ask one question of the president. Who was responsible for the artistic design of this report?

Mr. GORDON: The artistic design of this report was worked out by the Public Relations department in charge of Mr. Lash. He has under him two or three very talented individuals, particularly Mr. A. B. Smith and Mr. Bernard Holmes, who are responsible for all of the layout and printing work in relation to the report. I am very glad you mentioned the matter because, personally, I think it is an excellent presentation.

Mr. McLURE: I can agree with you.

Hon. Mr. CHEVRIER: The gentleman is here.

Mr. GORDON: Mr. Lash, please stand up and take a bow.

Mr. McLURE: I think he should.

The CHAIRMAN: Some questions were asked of you this morning. Have you any material ready, Mr. Gordon?

Mr. GORDON: I have the information in regard to the original date of appointment of the Canadian National Railways directors. Mr. Wilfrid Gagnon was originally appointed on October 1, 1936. Mr. H. J. Symington, on October 1, 1936. Mr. B. L. Daly, on October 1, 1936. Mr. J. A. Northey, on July 12, 1939. Mr. R. B. Brennan, on November 1, 1944. Mr. W. J. Parker on November 1, 1949, and Mr. D. Gordon, on January 1, 1950.

Mr. FULTON: Thank you, Mr. Gordon.

The CHAIRMAN: If there are no further questions in regard to box cars, shall we carry on with "Operating Revenues, freight rates."

Mr. FRASER: Mr. Gordon, in regard to box cars there is an item at the bottom of "Operating Revenues", entitled "Government Interest". I notice there is a drop this year as a result of a drop in the interest rate. Is that owing to your refunding, or to what?

Mr. GORDON: That merely represents the fact that the amount of loans from the government is less than the average during 1950 than it was in 1949. Certain of these loans that we have direct from the government matured in various forms, such as in hire-purchase agreements. The same rate of interest was charged; but the amount of money which we borrowed from the government was less than before.

The CHAIRMAN: I know that many members of the committee will want to ask questions in regard to the present capital structure of the railway. In looking over the material I would suggest that that discussion should come under paragraph 3 of the forwarding letter, and that we should reserve all our questions until we reach that paragraph.

Mr. FULTON: There is a possibility, is there not, of discussing that matter under the paragraph having to do with the Royal Commission on Transportation, which occurs just before that.

The CHAIRMAN: Yes, but we might get involved in other discussions if we left it to come under the Royal Commission on Transportation. So, if the members of the committee are agreeable to that suggestion, I would ask you to hold your questions.

Mr. FRASER: Very well, Mr. Chairman. I shall let it go, and Mr. Gordon can answer it at that time.

The CHAIRMAN: "Freight rates."

Mr. FULTON: On the freight rates section, Mr. Gordon, can you tell us what the total percentage of increase will be for the year, if the application of the Railway association of December 21 is granted? You have given us the percentage up to the present as compared with the percentages for the United Kingdom and the United States. Can you tell us what the total percentage would be?

Mr. GORDON: In the sentence immediately before that, the effective increase—

Mr. FULTON: Yes.

Mr. GORDON: —has averaged about 35 per cent. Now, with the 5 per cent increase, the best figure we can give at the moment is that the nominal percentage is 45.2 per cent, and 5 per cent of that would give a further nominal

increase of 7.26 per cent above 1922-48 levels. What that will mean in effective figures we cannot tell until we see how the 5 per cent is distributed. But I would guess, roughly, it would be of the order of 2½ per cent effective increase.

Mr. FULTON: You have other increases averaged. I am looking at the paragraph at the bottom of page 6 where you say:

On December 21, following upon the decision rendered by the arbitrator appointed under the Maintenance Railway Operation Act to settle the dispute with non-operating employees, the Canadian National joined with the Railway Association in making application for a specific increase of 10 cents per ton on coal and coke and a general increase of 5 per cent on other freight traffic, the increases to be effective immediately. Concurrently an application was made for such further increase in freight rate as may be required to off-set the additional operating expenses which will result from the inauguration of the 40 hour week on June 1, 1951, the increase to take effect on that date.

Mr. GORDON: That is quite correct.

Mr. FULTON: Are you able to attach a percentage figure to it?

Mr. GORDON: We made our application before the Board of Transport Commissioners in two parts. Part I was for a specific increase of 5 per cent; and in Part II we reserved our right to make an application for a freight rate increase when we established what the 40 hour week would cost us. We are not quite ready for that case yet. Our committee is still studying the effects of different economies and different operations arising out of the 40 hour week. But we intend to press for a hearing as soon as possible before the Board of Transport Commissioners and at that time we will put the percentage figure before them.

Mr. FULTON: Would you not, perhaps, want to modify your statement that an application was made? Should you not say, that, perhaps, notice was given of an application?

Mr. GORDON: Well, it is a matter of expression. Perhaps that would have been more correct. But, in point of fact, the form of the application was that we did split it in two parts. We made an application for a specific increase, and we made an application for an increase which was to be determined when the 40 hour week figures were available.

Hon. Mr. CHEVRIER: You did so in order not to have to make a further application later on?

Mr. GORDON: That is right.

Mr. FULTON: Does that mean that the decision on the 5 per cent application will be deferred?

Mr. GORDON: We hope not. You will observe that at the top of page 7 I stated that the board reserved judgment. We had hoped that they would deal with the 5 per cent case immediately, and would deal with the second part of our application as being a part of the same case.

Mr. FULTON: Have they given you any date yet, or any indication as to when you may expect it?

Mr. GORDON: No. They have not named a date for the second part. But early in May we expect they will hold a hearing when they will listen to us and when a date may be set.

Mr. FULTON: But they have not given any indication as to when you might expect their judgment on the other part?

Mr. GORDON: There has been no official indication, I think.

Mr. FULTON: Have you figures which would tell us what a percentage increase of 10 cents a ton on coal and coke would be if allowed?

Mr. GORDON: You mean expressed in percentage of freight rates over-all?

Mr. FULTON: Yes.

Mr. GORDON: Or of that particular freight rate?

Mr. FULTON: It has always been kept separate, so perhaps it should be of that particular freight rate.

Mr. GORDON: It should be for the particular freight rate. Yes, we could get that information for you. The difficulty is that there is a great variety of coal rates, you see, depending on the quality and the kind of coal in the different areas in which the operations take place. If you are interested, we could get an average figure of what the ten cent increase means.

Mr. FULTON: If it would not make too much work. You will see figures comparing percentage increases in the United States and the United Kingdom, and they are frequently used. So if we could have it expressed in a percentage form, I think it would be helpful.

Mr. GORDON: If you would leave it with me on the basis of my establishing what I would call a sensible reply to your question, I shall do that, because I know there are some qualifications which will have to be made in respect of making an over-all percentage. I shall undertake to get you a statistical answer which should give you the material you are looking for.

Mr. FRASER: I wonder if Mr. Gordon could tell us the estimated loss of revenue on account of the reduced freight rates in Newfoundland?

Mr. GORDON: Yes, I have that.

Mr. FRASER: That is, for 1951?

Mr. GORDON: I think it is around \$1 million, but I shall check that. The best estimate we have now is \$768,000 per annum.

Mr. FRASER: \$768,000 per annum?

Mr. GORDON: Yes, \$768,000 per annum.

Mr. FRASER: That is, with the present equipment, or with new equipment that you will be putting in there? There would be a difference, would there not?

Mr. GORDON: I do not follow that.

Mr. FRASER: Well, if you put new equipment in there, which is something which you are constantly doing, that would increase it, would it not?

Mr. GORDON: It does not necessarily follow. We are basing our estimate on being able to handle all the volume of traffic available to us.

Mr. FRASER: With the new equipment?

Mr. GORDON: Yes. We take all the traffic that we can handle and we figure on that basis that the loss would be somewhere around that order, on the present volume of traffic. If the volume of traffic substantially increases, we would handle it with new or old equipment; then the amount of reduced revenue, so to speak, will increase.

Mr. CARTER: Has the Newfoundland government made any representations for reimbursement on account of the overcharge, before the new rates went into effect?

Mr. GORDON: "Overcharge"? I am not aware of any overcharge.

Mr. CARTER: Did not the Board of Transport Commissioners rule, after considering a brief, as I understand it, that the rates charged were higher than was constitutional under the terms of union?

Mr. GORDON: No. What actually took place was that the Canadian National Railways applied charges to the best of their knowledge and ability at the time of Confederation and those charges, those freight rate charges, were considered by the Board of Transport Commissioners at that time and approved. But later on an application was made by the Newfoundland government, and in

the light of further information and evidence, up to that date, the Board reversed the other decision and established a new scale of rates which was lower than the scale of rates before. But there is no question in law or in fact that there was an overcharge which was recoverable. It was merely a new decision in regard to the freight rate level.

Mr. CARTER: But I understood that at the time of Confederation, when these terms were being worked out, the people who negotiated the terms on behalf of Newfoundland understood that the Maritime freight rates would apply to Newfoundland and that after Confederation became a fact, these Maritime freight rates did not apply. The rates charged were higher. Is not that correct?

Hon. Mr. CHEVRIER: Perhaps I might say that under the terms of union it was envisaged that the maritime freight rates structure would apply, and that is what the Canadian National Railways attempted to put into effect. The Board of Transport Commissioners held that it should have been a lower rate; but the fact is, and the law I think, that freight rate adjustments are never retroactive; and this is illustrated by the 21 per cent increase granted back in 1948. In that matter an appeal was made from the decision of the board to the Governor in Council, and the Governor in Council instructed the board to review its decision. The board did review its decision and revised the 21 per cent award downward, and there was no question there of retroactivity so far as the increase was concerned or of reimbursement by the Canadian National or the Canadian Pacific so far as the revision was concerned.

Mr. GORDON: If I may just add to that, the board in its decision emphasized that in ordering the reduction they did not wish to imply that the Canadian National was being criticized in any way for their interpretation of the terms of union.

Mr. CARTER: I am glad to have that cleared up. Has Mr. Gordon any further information on the results of the operation of the Newfoundland Railway?

Mr. GORDON: Yes. For the year 1950 our total deficit for the Newfoundland district, as a result of operations, shows \$3,002,314. That does not include the subsidy of \$1,250,000 which was paid to the railway on the coastal operations. Without that subsidy our deficit instead of being \$3 million odd would have been \$4,252,314.

Mr. CARTER: Can you tell me what valuation was put on the Newfoundland property?

Mr. GORDON: There is no valuation in the books of the company respecting the Newfoundland railway, that is, as we took it over at the time of Confederation. Anything we spent on it since would be shown on our records.

Mr. CARTER: Don't you consider the Newfoundland railway as part of your property?

Mr. GORDON: Yes, but we did not transfer onto the books of the Canadian National Railway system any figures for the property; in other words, the government did not charge us for the railway, they just turned it over to us.

Mr. CARTER: That is right, but still what they turned over represented something, it had some value.

Mr. GORDON: I do not know what the valuation is on an asset that loses money.

Mr. CARTER: We were losing money on its operation too, but in the property you took over there was a certain physical property in the form of cars, engines, rail lines and associated property.

Mr. GORDON: That is right, but if it loses money I do not know how you can capitalize its value.

Mr. FULTON: After all, all the railways which now go to make up the Canadian National system were losing money, they were bankrupt.

Mr. GORDON: I beg your pardon, that is not so. The Canadian National Railway has never lost money on its operating expenses. Our trouble is in this burden of debt. What we are talking about here is the operating result. The Newfoundland railway on all its operations has shown a deficit. Now the Newfoundland railway, as a part of the terms of union, was turned over to the Canadian National for operation without cost and we did not set up in our books any valuation for it.

Mr. FULTON: I would like to keep the record correct. I did not say that the Canadian National Railway is showing a deficit. I said that the Canadian National system came into existence as the result of the amalgamation of a number of railways many of which were or were about to become bankrupt.

Mr. GORDON: That is right.

Mr. FULTON: They were in terrible state, but surely there was some valuation placed on their assets, was there not?

Mr. GORDON: That is exactly the point we got to when we were talking about re-capitalization proposals before the royal commission, these particular debts of the bankrupt railways to which you refer which were moved over onto the balance sheet of the Canadian National Railways; and that is one of the reasons that today we say that our fixed interest burden is unfair. That does not apply in the case of the Newfoundland railways which were transferred to us without cost or debts. We took over the physical assets and commenced operations. In respect of the 1923 amalgamation of the C.N.R. however there were three kinds of debt outstanding in the hands of the public and elsewhere for these bankrupt railways, and on being taken over by the Canadian National Railways system the holders of these particular bonds were paid.

Mr. FULTON: And in your argument you make a distinction between the situation and that of the Newfoundland railway. In the one case the debt taken over is shown while in the other case you just took over and were ready to operate it and therefore you have no capital entry with respect to it.

Mr. GORDON: That is correct. If there had been, for instance, any outstanding debt in connection with the Newfoundland railway there might have arisen a question as to whether or not that could have been transferred to the books of the Canadian National. I would have thought that if an attempt had been made to do that the Canadian National Railways might have objected; but in connection with this case no objection arose because the railway came over to Canada under the terms of the union and the physical property was turned over without cost to the Canadian National for management and operation; these are the operating results to which I am referring; and without allowing or attempting to get any interest on the money invested, the actual operation of the railway for the year 1950, the money we spent in running it less the revenue which we obtained for the operation, showed a deficit of \$3,002,314, and in addition we were subsidized to the extent of \$1,250,000 for the coastal service.

Mr. CARTER: Do you not think the railway itself, the rolling stock and so on, which you took over, should be shown at some value?

Mr. GORDON: We show it in our physical inventory as part of the railway's rolling stock. We include what we have in Newfoundland, as a matter of statistical record, but it does not get into our balance sheet as showing any value as far as the balance sheet is concerned.

Mr. CARTER: What about the steamships? Do you include those? You took them over to operate too, did you not?

Mr. GORDON: They were shown on our inventory on the same basis as the rolling stock. You will see that in our annual report on page 40, under floating equipment; you will see 14 steamers and they include the Newfoundland boats or vessels.

Mr. CARTER: Surely these represent some other value, do they not?

Mr. GORDON: I think we are talking of two different things somehow or other. I don't quite follow your question, Mr. Carter. What we did was, we took over the railway, the government gave us a number of locomotives and rolling stock and so forth, and gave them over to us to operate. There is the system, the Newfoundland railway system; and they said to us: you operate it. And these are the results which I have just given you.

Mr. CARTER: Surely that gift the government of Newfoundland gave the Canadian National Railways at that time represents something in the way of monetary value, it increased the value of your property did it not?

Mr. GORDON: No, not as a result of operating; it represents a loss.

Mr. CARTER: I cannot follow that. If I owned a steamer and if I operate that steamer at a loss and still if I can sell that steamer for a quarter of a million dollars of a half a million dollars, it has that much value, does it not?

Mr. GORDON: Well, now you are talking about liquidation values, winding it up.

Mr. CARTER: I do not care what you call it. The government of Newfoundland turned over the property to the Canadian National Railway, surely it has some monetary value. Whether you operate it at a profit or not I still maintain that it has some value.

Mr. GORDON: Perhaps I might make it clear in this way, from the bookkeeping point of view. If the Dominion of Canada had paid Newfoundland a sum of money for this property, then in turning it over to us that amount of money would appear on our books. Now, to the extent that they bought any properties they would appear in our books, but in this case, in accordance with the terms of union, we took over the railway without cost and operated it, the railway and the ships, and there was no money exchanged between the Dominion of Canada and the government of Newfoundland; therefore, there was no book entry to make. Now, when we bought ships to increase the coastal services there was money paid; the government paid some money at that point, and there is an entry shown in our books. When we pay out any sum of money there is always an entry in our books.

Mr. CARTER: I understand that.

Mr. GORDON: When this railway was turned over to us there was no money paid and therefore there is no book entry.

Mr. CARTER: I cannot follow you on that. Don't you set up any value in your books with respect to property which you acquire; has it no value?

Mr. GORDON: I am not saying it has no value. I am merely saying that a valuation as such is not recorded on our books.

Mr. CARTER: I am not worried whether it is recorded on your books or not. I am trying to find out what it would be worth if you had had to buy it and it represented a capital investment. Surely it represented a capital investment on the part of someone?

Mr. GORDON: That would call for an evaluation of the existing railroad, rolling stock and so forth. That would be a big job and it would accomplish nothing, apart from satisfying a certain amount of curiosity.

Mr. CARTER: No evaluation has been made on the property?

Mr. GORDON: No evaluation as I said, so far as I know, has been made on it. There was no evaluation of it, nor was there any valuation on the books on the Newfoundland government, nor did they express any valuation when they took over from the Reid-Newfoundland Company.

Mr. CARTER: In any case, before it was taken over by the Canadian National Railway it represented capital value to the Newfoundland government, their capital outlay did not disappear; I mean, that the Newfoundland government put money into it; it cost somebody money to build the railway and to keep it going.

Mr. GORDON: No, it was carried at no real value in the books of the Newfoundland government so far as we know.

Mr. CARTER: That is a very strange state of affairs.

Mr. GORDON: Perhaps I could answer that by saying that there are strange things happen in Newfoundland.

Mr. KNIGHT: Would Mr. Gordon be prepared to say what the Canadian National is worth?

Mr. GORDON: Certainly not, no. I mean, the books of the Canadian National in regard to its property investment account is an historic figure which stands at whatever was on the books of the bankrupt companies when we took them over—to put a valuation on the Canadian National system, I suggest, would be a colossal undertaking.

Mr. CARTER: Does it not appear on your inventory?

Mr. GORDON: The equipment does appear on our inventory, yes.

Mr. CARTER: I mean, its value.

Mr. GORDON: No, we show on our inventory all the physical assets, the number of items—box cars and so on—

Mr. CARTER: But part of that is new equipment, the new equipment would be shown as having value?

Mr. GORDON: Oh yes, as equipment delivered or received, that would be on our inventory. It goes into our books when we spend money for it. Anything that costs the Canadian National system money when we buy it is shown in our books.

Mr. CARTER: Whether you show it in your books or not it cost somebody a lot of money; they didn't just go out and pick it up—it is worth something to someone. I see from the report here, that in your operations 80 per cent of your revenue is from freight. I was wondering with regard to freight if you could tell me how much of the Newfoundland freight was re-routed over other lines last year?

Mr. GORDON: How much of the Newfoundland freight was re-routed over other lines?

Mr. CARTER: Yes.

Mr. GORDON: You mean steamship lines?

Mr. CARTER: Yes. I understand there was a considerable amount of freight that the Canadian National Railways could not deliver at North Sydney, did not deliver, and instead of sending it over your own lines you took it to Halifax and then transferred it to other shipping companies who brought it in and landed it at St. John's and made the Canadian National Railways liable for rates, claims and damages, et cetera.

Mr. GORDON: I did not quite understand what you were getting at at first but I think there was a period of congestion at North Sydney so that we were forced to re-route some traffic through Halifax and have it handled by private steamship companies on a deal as to rates and so forth. I have not that figure before me but perhaps we could obtain it, I do not know. You see, that is

equivalent to the sort of thing that goes on all the time in regard to interchange of traffic. We interchange traffic with a number of railways across the North American continent. We do not tie these things down into separate compartments but if you are particularly interested in obtaining this figure—

Mr. CARTER: I am not particularly interested in the figure, but it does represent a charge on the Canadian National Railways which otherwise would not have occurred?

Mr. GORDON: It does represent a charge in that we have to pay part of our rate to private steamship companies, and we would have that money if we could have handled the traffic ourselves, but we could not do that without additional equipment which would have cost us large capital expenditures.

Mr. CARTER: But it did contribute to the debt figures?

Mr. GORDON: Well, it reduced the revenues, yes.

Mr. CARTER: I am just about finished. There are one or two other comments I would like to make. The wording of this paragraph 4 I think is a little unfortunate. The quotation there that is taken from the report of the Board of Transport Commissioners, I presume, singles out the Newfoundland railways as a burden quite apart from other operations. What I mean is it reflects on the province of Newfoundland, it alludes to the railway's operations as an extra burden. I do not think that is the only burden or the only operation that you have that is not a paying one.

Mr. GORDON: That is a question of fact, that the board recognizes in its judgment, that is all.

Mr. CARTER: Then is it a fact that the Newfoundland operation is the only one that does not pay, the only one which is a burden to the Canadian National Railways?

Mr. BENIDICKSON: No. You used the term yourself, an extra burden.

Hon. Mr. CHEVRIER: Is that not the reason why the Royal Commission recommended that the financial requirements be taken out of the Canadian National Railways' accounts and voted in the estimates?

Mr. CARTER: I still think it is an unfortunate wording because there are other factors to be balanced against that and one factor is that whether the Canadian National Railways recognizes it or not the Newfoundland government did at some time put considerable investment in the Canadian National Railways which, had the Canadian National Railways to buy or replace it, would require a considerable investment and the interest on that would amount to a considerable sum. And there are other factors too. I think one of the factors contributing to this deficit is your remote control from Moncton. Now, Newfoundland has problems that do not exist in other provinces and especially in the coastal operations and I do not think you can expect an organization centred in Moncton to be familiar with these problems, and to operate as efficiently as it could be operated under the old system where it was a separate operation entirely managed from St. John's. I think your remote control, your particular organization framework is responsible for some of that deficit. Another point is that the quality or the frequency of the service is such that commercial firms find it more profitable to go out and bring down their freight in small schooners—freight that should be carried by the Canadian National Railways. But they cannot have their freight lying on a wharf in Port aux Basques for a week or two and so they go to Halifax and Sydney and bring it in themselves. If, however, the frequency was doubled you would be carrying more freight and that would decrease the deficit of the Newfoundland railways.

Mr. GORDON: I do not know just what is intended here, whether it is a criticism of the management or is intended to be a general dissertation in regard to Newfoundland operations. If it is the first, then I say that I must reserve

to Canadian National Railways management the right to determine the best way to run our operations in Newfoundland. There can be endless arguments and differences of opinion about that, but all I can do is to say that in the opinion of my officials and in my own opinion after looking very carefully at the organization that the method of organization we now have which involves divisional supervision from Moncton but nevertheless includes local Newfoundland management as well is the best and most efficient method we see of running the railway. I think I must ask the committee to accept that or else expose us to the criticism of bad management. I do not think we will ever agree on it because I think the views of Mr. Carter and our officials will never meet.

Mr. FULTON: But I am sure you are always ready to listen to representations.

Mr. GORDON: Of course, and I think that Mr. Carter will agree we do that in great detail. The second is in respect to the service I can say in a general way that the service on the Newfoundland railway and what we have in mind for improvement in the service has already shown a very marked improvement compared to what we inherited. We inherited a situation, we spent a terrific amount of money improving the service, the roadbed and so forth, and there are large expenditures in connection with the ferry and other facilities which certainly cause Newfoundland no legitimate or valid reason for complaint at all. I took occasion, as a matter of interest, to look over our capital expenditures. In looking at the Newfoundland district especially, the amount of money which we are budgeting for in respect to the Newfoundland district is very much greater than we are expending in any other part of the system on a relative basis. Certainly there can be no suggestion that we are starving Newfoundland. The reverse is the case.

Mr. CARTER: I think that Mr. Gordon quite misunderstood me. I am not criticizing the management. I am just saying that here you make a statement or at least you take a quotation from the report of the Board of Transport Commissioners and you incorporate it in this report which goes across the nation and it looks as though the Canadian National Railways have been saddled with all this extra burden as a result of Newfoundland coming into confederation. I tried to point out that there are other factors to be considered, too, which are not stated here. I mean, you do not give the other side of the story, and it is possible that some of this deficit is not entirely due to the nature of the operation itself but is due to the other factors which I have tried to enumerate.

You admitted yourself that the re-routing of this traffic through the other ports also increased the deficit.

Mr. GORDON: There is hardly a section of the railways where in one way or another we do not have to adopt emergency measures. In British Columbia, for example, we have rock slides which mean the re-routing of trains and substantial additional expenses for operation have to be incurred. We deal with geographical and climatic factors as we find them. There is always something happening on the railroad and sometimes I often think it is something wrong; but there is always something happening, I can assure you of that. But if we have in British Columbia a rock slide we do not hesitate to re-route over the Canadian Pacific Railway and the Canadian Pacific does the same with us all of which involves the expenditure of extra money. The same thing is true in your case. Due to the severity of the winter or the lack of equipment we could not handle the volume of Newfoundland traffic. The traffic reached unprecedented size immediately following confederation and we decided that we would use all the other facilities we could find to handle the traffic just as we do in British Columbia. That statement is not a reflection on Newfoundland. It is merely a statement of fact.

Mr. FULTON: Perhaps there is an offsetting advantage to any difficulties you encounter in Newfoundland because you are able to advertise as being the only railway that serves all ten provinces. You certainly use that statement. It is printed and published all across the country.

Mr. GILLIS: Is it not true that there are other sections of the system that have handicapped the Canadian National Railways to a greater extent than the Newfoundland railway? For instance on other lines you took over all the funded and bonded debt on which interest is accumulating in fact all over the system, but when you took over the Newfoundland system you took over no bonded debt or no interest.

Mr. GORDON: We have never hesitated to point that out, and if you look at my submission to the Royal Commission on Transportation, I referred very specifically to the burdens put on the Canadian National Railways in fixed charges, et cetera. That went out all over the country and it was a perfectly honest statement. There was no intention of making any invidious comparison.

Mr. GILLIS: I think that is what worries Mr. Carter. He thinks you got a good deal in taking that railway over without any bonded debt or interest in comparison with other sections.

Mr. GORDON: If I have been a little too defensive in my answers, Mr. Carter, I apologize. I am sensitive with regard to Newfoundland because we have heard such an awful lot about it.

Mr. CARTER: And you are going to hear a lot more.

The CHAIRMAN: Any further questions on freight rates?

Mr. FULTON: Could I come back to the question of the five per cent increase for which the railways have applied. It is stated in the report that on January 25 the board reserved judgment on that part of the application which related to the five per cent increase. Could you tell us whether you have an estimate of the monthly loss which you are incurring as a result of not receiving that five per cent increase?

Mr. GORDON: It would run roughly, I am informed, to about \$1,100,000 per month.

Mr. FULTON: And judgment has now been reserved for nearly three months?

Mr. GORDON: Yes.

Mr. FULTON: I draw attention to that because my recollection of the report of the Royal Commission on Transportation is that, while perhaps it was not directly critical, it left no doubt that in the opinion of the commissioners the Board of Transport Commissioners itself had not given judgements with the speed that the importance of the economic factors warranted. Are you aware of any steps being taken to correct that situation?

Hon. Mr. CHEVRIER: The report has been drawn to the attention of the chairman of the Board of Transport Commissioners and therefore he is advised of the recommendations. Of course, the Board of Transport Commissioners, as Mr. Fulton knows, is a court of record. They may decide to throw out the application altogether. They may decide to grant two per cent of it. They may decide that an interim judgment is not warranted—under all the circumstances. It is pretty hard to gauge or guess what is in their minds, but they have the report of the Royal Commission on Transportation and they know what observations were made in the 21 per cent case, where a judgment was not handed down for almost two years.

Mr. FULTON: The minister used the term interim judgment. I understand that with respect to the five per cent increase, when the judgment is given it will be a final judgment.

Hon. Mr. CHEVRIER: I mean interim judgment as far as the application is concerned. The application is for five per cent plus what might be additional because of the implementation of the forty-hour week. If they deliver a judgment on the five per cent case, that part of the application is an interim judgment to my mind.

Mr. FULTON: I understand that with respect to the five per cent case it was presented in such a way that the judgment, whether favourable or adverse, might be given without prejudice to any other part of the application. Or is there another factor the determination of which is holding up the final judgment of the board with respect to that five per cent application?

Mr. GORDON: The railways submitted the application in two parts, part one covering five per cent specifically and part two to leave the application on a basis where we could bring forward everything in due course caused by the implementation of the forty-hour week. We hoped and expected that the five per cent definite application would be dealt with as a separate factor and we could have a decision on that, but that does not prevent the board from taking another view. The board in hearing the evidence might do that, I do not know, but it is quite within the jurisdiction of the board that, having heard the evidence it might no concur with us that we had made a case. I do not know why they reserved judgment; they did not say. It might be that they are in the frame of mind that we did not prove a case at all. It certainly would be within the Board's jurisdiction I think to take that attitude.

The CHAIRMAN: I think Mr. Gordon's answer covers your point reasonably well. I would suggest that while the matter is before the Board it is perhaps not proper for this committee to discuss it.

Mr. FULTON: Certainly not to discuss the merits; I quite agree with you. I was directing my remarks to whether the decision—

The CHAIRMAN: I think that has been fully answered and that is why I suggest that perhaps it might not be well to pursue that point.

Mr. FULTON: I do not know that it is fully answered but there are other parts of the report where we can come back to it.

The CHAIRMAN: Is that a threat or a promise? Are there any further questions?

Mr. THOMAS: Yes, just one. I see they have an average increase of 35 per cent in their freight rates. I wonder if that could be broken down in areas—for example the percentage of increase in the maritimes, the percentage of increase in central Canada, and the percentage of increase in the prairies?

Mr. GORDON: I would not think that would be feasible. It represents horizontal increases right across the board, subject to certain exceptions, and it would mean an analysis of every item of freight. I think it would be out of the question.

Mr. CARTER: In paragraph 1 it says the passenger revenue has declined 7·8 per cent?

Mr. GORDON: What is that?

Mr. CARTER: Paragraph 1, under operating revenue.

Mr. GORDON: Passenger revenue, yes.

Mr. CARTER: Yes.

Mr. GORDON: You will see on page 7 at the bottom of the page: "Both the number of passengers carried and the average length of journey declined during the year, passenger-miles showing a reduction of 13·1 per cent. This is mainly attributable to interruptions in train service"—that would cover the strike as

well as the coal shortage, etc—"in addition to reduced tourist and travel expenditures, and the increase in use of motor vehicle and air line transportation".

You will recall that in the early part of 1950 there was curtailment of passenger service due to the shortage of coal, and that is reflected in the figure.

Mr. CARTER: A large percentage?

Mr. GORDON: It is a large percentage, perhaps a disturbing percentage.

Mr. MACDONALD: Would Mr. Gordon be inclined to comment on what means are being taken to reduce this percentage of loss?

Mr. FULTON: Particularly when, I might add, there was the same experience last year. I have last year's report before me and you said there was a drop of 8.5 per cent in the passengers carried. I would like to associate myself with the question asked by Mr. Macdonald as to what means you can see, if any, to boost your passenger traffic?

Mr. GORDON: The general question of building up our passenger income or passenger transport is one of the most difficult questions before the railway management today. I think I can say frankly it represents the impact of competition of alternative forms of carriage, particularly highway competition in the form of busses. The air line competition is not as serious because it represents sort of a luxury type of competition although it does take traffic away from the high capital valued means of transportation we provide. In other words, where we lose substantially is that in trying to compete against air lines we provide 'super-duper', luxury type equipment in the form of what we call 'rear end equipment'. That is a peculiar expression to me but it is a railway term. I do want to suggest to you that our rear end equipment is very comfortable, but I was looking over some figures the other day and the air lines are still only taking a little better than 1 per cent of the passenger traffic. The big competition is in the form of the individual motor vehicle and we just cannot meet and never will be able to meet the degree of flexibility and convenience there is for the man operating and riding in his own automobile. That is of course growing.

On the question of busses the volume of movement is serious competition but there we are handicapped by a number of factors. We are handicapped by the fact that we find it very difficult to get co-operation in the matter of running busses here and there, where we think they might add to our volume. Every time we wish to abandon a railroad and give better service by bus we meet all sorts of opposition. We meet it from the residents of that community, and from the government officials who grant the permits.

Mr. FULTON: And also from the employees of the railway?

Mr. GORDON: Well no, I cannot say that is a specific matter that gives us much trouble. I cannot recall having particular representations from employees in that respect. It is just a question of how we meet the competition. Everything we have struggled with so far has been pretty frustrating, I do not mind admitting. So, the question of passenger traffic remains a headache problem for the railway. I cannot see any obvious solution; I think it is a combination of a lot of solutions.

I think we can work out co-operative arrangements between the bus carriers and the railways; I think something of that kind could be done. I think we are entitled, as the royal commission report brings out by implication, to see that competition is at least kept on a fair basis. I can only end up with the rather lame explanation, I am afraid, that the type of competition existing against rail passenger traffic continues to be acute and is likely to become worse rather than better.

Mr. FULTON: Do you estimate any substantial or appreciable loss of your transcontinental traffic to American railways because of various reasons, including the fact that they make the trip in less time than you do?

Mr. GORDON: That becomes a question of preference on the part of the passenger.

Mr. FULTON: I was wondering whether your studies indicate that there has been any loss or whether there has not been any loss for that reason?

Mr. GORDON: That is very difficult to establish. It is something about which you can make assumptions but it is very difficult to establish.

Mr. MOTT: Is it not right, Mr. Gordon, that the Great Northern Railway out of Seattle and Everett on an average is 48 hours faster into Montreal than the C.N.R.?

Mr. GORDON: The operating schedule is faster, but I do not know how much.

Mr. DINGLE: I understand it is from 20 to 24 hours faster.

Mr. MOTT: Well, there is a day there.

Mr. GORDON: The transcontinental traffic in Canada is conditioned by arranging our schedule so as to arrive at the larger centres in the various provinces at reasonable hours.

Mr. FULTON: To the prejudice, I might say, of most of the smaller centres.

Mr. GORDON: It may be, Mr. Chairman, but I have discovered this in life already; it is one problem I have never solved: you cannot be in two places at the same time. I have never been able to do it personally nor with the railroad.

Mr. GEORGE: I hope, Mr. Chairman, that Mr. Fulton does not assume that the Ocean Limited arrives in Montreal from Halifax at a reasonable time?

Mr. GORDON: The transcontinental schedule could be speeded up if it were found desirable to do so but we would have the immediate difficulties of providing reasonable arrival and departure times at the principal intermediate and terminal destinations; and included in that is the problem of making connections with the various trains from other important points, not only criss-cross Canadian traffic but important trains from the United States.

Mr. FULTON: You are not able to say then that there is any way in which you can make an estimate or whether you do in fact lose transcontinental traffic?

Mr. GORDON: I would say it is an assumption that we do. I have made inquiries but it is difficult to assess what motivates the passenger in making his decision. Sometimes it is obvious that a person leaving Vancouver takes the other route to save time, but there may be other reasons.

Mr. FULTON: May I ask you what is the chief factor in arriving at the decision not to speed up the schedule? Is it the difficulty of connections or is it the financial difficulty in the way of better roadbeds, equipment and so on being required, or what is the over-all reason?

Mr. GORDON: The main difficulty is the difficulty of schedules, maintaining connections, and working them out. Mr. Dingle, that is an operating matter. Would you think that is a good explanation of it?

Mr. DINGLE: Yes. These transcontinental schedules have been set, sir, for various reasons over a long period of years. We figure now that what we have is about the best suited to our over-all needs.

Mr. FULTON: Would you dispose for us, Mr. Dingle, of a statement which has been made and which I have never heard answered one way or the other. It has been suggested in this committee in previous years, and outside the committee, that the main reason is that some tie-up exists between you and the C.P.R. in the matter of schedules. They are physically incapable of increasing their time and therefore you are held down?

Mr. DINGLE: I would put it this way. Either road is open to adjusting its schedules but it is the practice, at the present time, that we consult one another as to our schedules.

Mr. FULTON: So that is to some extent a joint decision?

Mr. GORDON: Put it this way. There is no agreement existing between the C.P.R. and ourselves in regard to these particular schedules but, as a matter of practical common sense, we check with each other in regard to our schedules because that has a meaning in regard to the interlocking of the traffic coming to these key points. Looking at it again and again, both railways have come to the conclusion that the present schedule is the most practical one all things being considered. It is quite untrue to say that there is any understanding that we will slow down in order to meet their schedule.

Mr. MUTCH: The usual form which the story takes is that, because it was demonstrated the C.N.R. could make six hours faster running time between Vancouver and Montreal than the C.P.R. did—that was in the days of Sir Henry Thornton—an additional six hours have been tacked on to make the service comparable with the C.P.R. That has been told over and over again and it is generally believed.

Mr. GORDON: I have heard of it, enquired into it from a point of considerable advantage, and the story is not correct.

Mr. KNIGHT: There is one special item here on special tariff about which the people of my city are concerned and they have made some protests, including a letter to the minister. I would like to get on the record something that would perhaps satisfy them or answer the protest in this regard. It is about C.F.A. tariff 67, whatever that is. They describe it as a tariff embracing multiple and maximum load cars coupled with severe scale demurrage and detention charges in addition to penalties imposed for cars held beyond free time.

Hon. Mr. CHEVRIER: That was a tariff which was put into effect by an order of the Wartime Prices and Trade Board when price controls were established. Some time in 1945 or 1946—I do not know just what the date was—the Board of Transport Commissioners was authorized to administer the order. There was no application made by the railways for the imposition of the order until quite recently.

Mr. KNIGHT: You mean a re-imposition?

Hon. Mr. CHEVRIER: That is right. Because of the box car shortage the railways made an application to the Board of Transport Commissioners to re-instate the maximum loading order and the board heard representatives of the railways but has not yet handed down its decision. I do not know just what you are pursuing it for. If you are making a point against the application of this order, then I do not understand your position because if there is a serious shortage of box cars and if the situation is urgent in western Canada, then that is a good argument for the imposition of this maximum loading order.

Mr. KNIGHT: We are not at the moment discussing a car shortage.

Hon. Mr. CHEVRIER: But you cannot separate the two.

Mr. KNIGHT: All right. Let us admit that. What I want to know is: What this tariff is and what is its general effect. I want to find out about that.

Hon. Mr. CHEVRIER: I can tell you in general terms that all during the war it applied in this way: that a car had to be loaded to its maximum capacity. The railways want the re-imposition of the order because, from the reports given to me that when the order was in force, there was a greater percentage loading of cars than there is today.

Mr. KNIGHT: These people consider that this is inequitable in regard to what they call the long haul points as compared with short haul points. That is

to say, that at points where they have the advantage of competition through trucks and water, they do not have to put up with this sort of thing. But on the other hand the people in the centre of the Prairie Provinces, at what they call long haul points, have no way of controlling the manner in which these cars are unloaded and taken off to other places. In short, they think that the long haul points have some special consideration, and that this charge is therefore inequitable.

Hon. Mr. CHEVRIER: I have no comment to make on that because it is a matter upon which the board was asked to adjudicate, and it has withheld its judgment.

Mr. KNIGHT: They think that the ultimate result will be an increased price to the consumer because ultimately these things are handed on to the consumer, in the matter of the price of goods.

Hon. Mr. CHEVRIER: I think that penalty charges are mostly in connection with demurrage.

Mr. GORDON: This order originated in the Wartime Prices and Trade Board. It was an order which was specifically directed to produce a greater efficiency in the use of cars, and during the time of its life it did add considerably to the more efficient use of box cars, and by so doing it reduced the over-all price to the consumer. That was the theory of the Wartime Prices and Trade Board order and it did work.

Now, in the present circumstances, what we are concerned with is to get a more efficient use of box cars which are in short supply, so it was felt that a method which proved satisfactory in the war could again be applied at this particular time.

The question one has to ask himself is: have we got an emergency or have we not got an emergency? If we do have an emergency, I suggest we are entitled to use emergency tactics.

It may be that it is not completely equitable in every case. I am inclined to agree that there would not be complete equity and that it might make a difference here and there. But if the big shippers concerned will co-operate with the railways and if we have the order re-instated, I think we can add greatly to removing any particular bottleneck which exists. But we would have to have an order to give us an opportunity to convince shippers that we are serious and that there is an emergency situation.

Hon. Mr. CHEVRIER: Here are the figures. The report I have indicates that the net ton mileage of a loaded freight car today is 29.6. But when the order was in effect in 1944 it was 34 points, a considerable difference. If the maximum loading order were put into effect today it would perhaps go back to higher than 34 points because there is a greater volume of traffic.

Mr. KNIGHT: Is not the fundamental idea of this tariff the result of an earlier release of cars?

Mr. GORDON: Both questions are there. There are two questions. The first is: Can we get better utilization of a car? And the second: Can we get a car released quicker?

Mr. KNIGHT: These people argue that in the case of central prairie points, which are long haul points, this would not serve the purpose of the earlier release of cars, because your cars were released earlier in any case.

Mr. GORDON: This is one case where we can point to a practical example. This order did what it was intended to do during the war and we have the records to show it. In specific instances the burden may be greater in some places than in others. But from the standpoint of the railways, we will do our

best, if the shippers will co-operate. That is, we will not take unfair advantage of the order. We will use the order for the specific purpose for which it was intended, namely, the better utilization of box cars.

Mr. KNIGHT: I am glad to have that on the record because it will give people some understanding of the situation. There is some argument on the other side. I was not pursuing any theories of my own because I have no opinion in this matter. I know nothing about it. I am merely trying to get a statement from the management as to what this is all about.

Hon. Mr. CHEVRIER: Nobody has been affected by it yet because there is no order.

Mr. KNIGHT: But the application for it is before the Board.

Hon. Mr. CHEVRIER: The Board may decide that there is not a sufficient emergency to apply it, and if they do not find that an emergency exists, they will dismiss the application.

Mr. Mutch: The matter I wish to speak about is related to the volume of rail traffic. It is mentioned here at the bottom paragraph under "volume of rail traffic", and it says:

A decrease of 11.4 per cent in less-than-carload tonnage is, in substantial measure, the result of truck competition.

I wonder if it is determinable, I mean the percentage or volume of LCL tonnage shrinkage in the prairie region? Is that available, and if it is, I would like to have it. And in addition, I would like to ask Mr. Gordon if it is not probable that the shrinkage in LCL tonnage particularly in those areas is largely attributable to the extensive and sharp increase in LCL freight rates and not from competition with other carriers? Competition in the prairie region from trucks is not as sharp as it is in the middle eastern regions. It would be very interesting to have that break-down.

Mr. GORDON: Well, I cannot give you any figure. There has been no figure established as to what the actual diversion of traffic is. We know in a general way that the diversion of freight traffic by reason of highway competition runs into scores of millions per year, and that one of the weaknesses in the present situation is that we have not got the proper statistical background to this problem.

The Railway Association, as I said this morning, is now setting up a transport economist department for the purpose of trying to establish the facts. We have been short of the facts in dealing with this particular problem. I cannot prove what actual amount of LCL freight is lost. We do know in specific instances that when we increase the tariff rates, we keep a sharp look-out for existing traffic and we try to get those rates at a point where they will be competitive.

In other words, if I may put it this way, this is a generalization and therefore I would not want to be held to it specifically. It is a generalization on competitive traffic, but I say that so far as highway traffic is concerned, it is not the rate only that is the significant factor. It is the degree of flexibility and the type of handling, and things of that kind.

Mr. Mutch: I am interested in a specific form of transport. It is not LCL. I will be much surprised if, as a result of the increase in rates in the prairie regions, you have not lost a substantial amount of business from stock drovers, people buying and selling to the stockyards. That should be readily determined by comparing one figure with the other.

Mr. GORDON: Our traffic department keeps a very sharp outlook for the very thing you mentioned, and that raises the whole question of competitive rates. We do try to keep our competitive rates at a point where we do not

lose traffic. But that does not mean that we do not lose traffic. We lost traffic for other reasons than that, such as by reason of the specific appeal of highway competition.

Mr. MUTCH: If it were possible to buy trucks today in the quantities in which they are required, I think that your LCL freight in the southern part, let us say, of Manitoba would decrease much more than 11 per cent, because of that increase there, and I am inclined to think that, whatever may be the case in the middle eastern and other regions, your loss in LCL freight in the prairie region has forced up transportation there by any means they can use.

Mr. GORDON: You mean the principle that highway competition in the form of trucks is operating against a background of the railway rates structure? We have to set a rate while the truckers have the opportunity and the advantage of being able to meet that rate, and of adjusting themselves to meet it. So we can never be absolutely sure that our rate is competitive until we have tried it.

Mr. MUTCH: Is your competitive rate for LCL freight seriously affected by your responsibility in meeting claims for breakages?

Mr. GORDON: I would say no on that. I do not believe our damage claims form a real factor in respect to the rates, no.

Mr. MUTCH: Your competitors urge that there is a specific loss caused in the matter, brought about by the adoption of certain packing and so on.

Mr. GORDON: Well, that is the sort of thing we do not know. We do not know enough about it. I think that one of the handicaps confronting the railways has been the fact that we do not know as much as we would like about our competitors' business. We have tended to consider very definitely our own particular method of transport, what it means to us, and so forth. But in meeting competition I think there is certainly room for further analysis of highway competition, of what sort of flexibilities we could introduce into railway service and what sort of improved service we could give to meet the competitive quality of service offered by the truckers. There is a limit to what can be done along that line.

And all through the piece we, of course, have been handicapped. I am afraid I am getting into a very controversial subject; but the railways have been very much handicapped by the fact that we have not had too much support in the matter of trying to meet strong highway competition through such methods as the agreed charge, for example.

That legislation went into effect, I think, around 1937 or 1938, and we have managed to make a relatively small number of agreements. But they are so be-devilled by red tape and qualifications and so forth that the railway does not have a chance to use its cost advantages against highway competition. And the same thing is true in lesser measure in regard to competition from trucking. Some of you may recall very well that this problem was the subject of an address I made recently in Montreal in which I said that the question of highway traffic and the question of highway competition in respect of rail traffic is really the major railway problem of today. That is the problem today, and we of the C.N.R. have taken very special action to explore the whole problem and developed a report on it which will be the basis for fuller decision. But, speaking as president of the railway, I have found myself very seriously handicapped in trying to find any solution to the problem because of lack of available statistical material and detail in regard to the highway problems. As I said before, I think that will be corrected very soon; at least so that we will know more precisely what we are talking about. I do not belong to the school of thought which believes that the only way to handle the highway competition is to stifle it. I don't believe that at all. I think it has to be met; it has to be met by the railways by offering alternative accommodation and

services which will be competitive, and to be worked out by agreement with the highway competition in such a way as to enable each method of transportation to do its job. The railway is definitely faced with this problem of highway trucking. There is no question about that, and it is foolish to think anything else about it. I do not think any good purpose is to be served by each one of us in just getting up and screaming at each other. That does not get us anywhere.

Mr. Mutch: I wonder if Mr. Gordon could give us any information as to how this new idea they have developed is working out; I refer to passenger trains or mixed trains carrying freight as a service to certain branch lines, and things of that sort.

Mr. Gordon: I think the answer to that must be in two parts, Mr. Mutch. The freight traffic rate is set as a rate for freight. If it suits our purpose to carry some of it on a mixed train, passenger or otherwise, that does not affect the rate; that is our operation of the business but it does not affect the rates. It may be more economical in some cases to put it on a mixed train than to provide a specific freight train, but that does not affect the rate. We consider that as freight just the same.

Mr. Mutch: You sometimes take it on just to fill up a car that is going over the line.

Mr. Gordon: That is right. Now when the volume of traffic is especially light we fill it up by taking freight on a passenger train run, but even when we do so it moves at the established rate.

Mr. Knight: What has the railway run into, if anything, in the form of direct competition in freight hauling on the highways along a given route and things of that sort?

Mr. Gordon: There are some routes where we have some trucking, not very much. We have quite a number of routes under study. We have a number of routes where we are operating, but not very extensively even there. For instance, there is the route from Port Arthur to Geraldton and Longue Lac and Hearst. There is the odd case of truck service competing with the rail haul and using Canadian National transportation equipment. We have the Niagara-St. Catharines—Toronto and Oshawa railways. That covers the bus service but it does not amount to much.

Mr. Fraser: Would that be express or freight?

Mr. Gordon: That would be freight.

Mr. Knight: In those cases it would be rather supplementing your rail service, would it not?

Mr. Gordon: That is right.

Mr. Knight: I mean, rather than entering into competition with your service?

Mr. Gordon: That is right. And in every one of these cases I have mentioned there I would say that the service was really completing the rail service.

Hon. Mr. Chevrier: I wonder how this gets in here?

Mr. Knight: What was that the minister said?

Hon. Mr. Chevrier: I just said, I wonder how this gets in here—go ahead.

Mr. Knight: Maybe we can find out.

Mr. Helme: I would like to ask Mr. Gordon a question—

Mr. Knight: Do you mind if I finish my remarks, Mr. Chairman?

Mr. Helme: If it is in order, yes.

Mr. Knight: We are here on this committee to make suggestions, even if we are not experts on railway matters. However, I was saying when my

friend interrupted me, that in the little place from which I come where the population is very thick the railways have discovered that they could not stand up to truck competition at all, and really there is power in the board to take over the railways and run them and co-ordinate the competition between the railroad and trucking; there are parts of this country I think where we have almost come to the point where the truck drivers could put the railroads out of business provided the railroads kept their tariffs where they are, unless they get together.

Mr. CHAIRMAN: I wonder, Mr. Knight, if you will put that in the form of a question. You see, it is the policy of this committee that we do not keep Mr. Gordon and his very important staff here any longer than we have to. We keep any discussion we may have until afterwards. I think that at this stage of our committee meeting we should confine ourselves to questions.

Mr. KNIGHT: My question is this, Mr. Chairman: If equitable freight rates are established all over this country are there not certain places where the railroad company, the C.N.R., would find it difficult to meet competition from trucking services which are already in existence? That is the point of my question.

Mr. GORDON: The first part of your remarks are a little difficult to follow. You ask, if equitable freight rates were established. I think we already have equitable freight rates so far as the railways are concerned. If you are talking about competitive rates then I could understand your question.

Mr. KNIGHT: All right.

Mr. GORDON: That brings up the question that the railways, if they are serving specific districts, would either have to go into the trucking business themselves or find some co-ordinating or cooperative method of handling the business.

Mr. MACDONALD: The report indicates "a decrease of 11.4 per cent in less than carload tonnage is, in substantial measure, the result of truck competition". I was wondering of that percentage how much was due to traffic lost to truckers as a result of the strike, and to what extent shippers forced to use trucking services were lost to the railways?

Mr. FRASER: And they will not go back to the railways.

Mr. GORDON: That is generally a question of psychology, as to which the shipper prefers. Personally, I do not believe that the strike itself has lost us an awful lot of business that we would not have lost anyway in respect of highway services, but that is only my opinion.

Mr. MACDONALD: I wonder if you would have a breakdown which would show us the percentage of loss, whether it was greater in the latter part of the year, let us say in the months of September, October, November and December than it was during the first eight months of the year?

Mr. GORDON: We haven't got anything in exactly that form but I have some statistics here that may cover your question. We have examined the question of these strikes as far as we can, and on the basis of all the information assembled it is estimated that the C.N.R. system lost approximately \$2,732,000. In respect of passenger traffic that is very much more difficult to estimate, but we estimate it at around \$600,000; so that makes it altogether about \$3,332,000 of a revenue loss arising directly out of the systems operations during the period of the strike, because we have taken into account the amount of wages that were not paid as against the revenue we would have had from the traffic.

Mr. BENEDICKSON: That is net?

Mr. GORDON: That is net, yes. I feel a little at a loss in discussing this question because I do admit, and I repeat, that statistics in regard to highway competition are very inadequate; as a matter of fact, provincial governments

do no require highway operators in all cases to give statistical returns, certainly not of the kind we need to examine their showings. There is no other way for us to get them. If we were to ask the highway operators for their figures they would be rather inclined to say no.

Mr. FULTON: Is that all they would say?

Mr. GORDON: There are a lot of things even under provincial regulations that are very difficult to establish because you have three types; there is the recognized trucker who makes trucking his business, you have a little fellow who is just running his own truck and very often runs it into the ground, and then you have the company which has decided to do its own hauling by its own trucks. You have these three different classes and it is very difficult to get any information of a kind that would be useful in formulating a policy.

The CHAIRMAN: Are there any further questions on freight rates?

Mr. GILLIS: I would like to ask this question. Have you any information on competition from the trucking industry, and in the light of the information available to you do you consider that we are arriving at a time when the government will have to consider our overall transportation policy in this country whereby all transportation will be co-ordinated under some government regulation bringing order out of chaos?

Mr. GORDON: I have always thought it advisable in my life-time, Mr. Gillis, to let the minister declare government policy.

Mr. GILLIS: I did not want to ask the minister because I was fairly sure he would not answer.

Hon. Mr. CHEVRIER: I made some answer in connection with that in the House the other evening when I was asked what the government was going to do in connection with the recommendation in the report of the royal commission having to do with a central authority, and I said that the government as yet had not had an opportunity of discussing it; that we were considering and studying the first part of the report relating to equalization, and that until we were in a position to recommend legislation I did not think it would be advisable to consider either the second or third parts of the report that you mentioned.

The CHAIRMAN: Carried.

Now, operating expenses.

Mr. FULTON: Have you dealt with rail traffic?

The CHAIRMAN: Yes, volume of rail traffic.

Mr. FULTON: I would like to ask a question there. You referred to the increased rail movement of oil as representing a passing phase, and I was wondering whether you had given any consideration to the operation of pipe lines from the Alberta fields. Can you tell us what consideration your railway—or has any consideration been given by the railway association and if so what consideration have they given to the question of the railways entering the pipe line field and the reason why you decided if you did decide against it?

Mr. GORDON: Well, I am afraid that question was one which was considered by a former management and I am not personally equipped to follow through the thinking that took place if and when consideration was given at a time when our pipe line might have been built. The only thing that I can say is that the time has passed for the railways to build them.

Mr. FULTON: There is only one particular pipe line in existence at the moment, is there not? That is the one to Superior?

Mr. GORDON: It is the pipe line that will probably carry a lot of traffic.

Mr. FULTON: There are a number of pipe lines proposed for the west coast?

Mr. GORDON: We have had a look at them and on the economics of any pipe line to the Pacific coast we cannot see that we could come out with a profitable operation, or anywhere near it. In other words, to answer the question specifically, we do not think we could undertake to build a pipe line to the Pacific coast on the basis of our analysis today. It would require too heavy a government subsidy.

Mr. FULTON: Yes, because the figures given on capital cost are such that you would not have the capital available. I was wondering if you were coming forward with a recommendation as a long term proposition that a pipe line would be a profitable field for a railway to be in, after all it is a common carrier. I was personally somewhat disturbed to think that in future all of the oil of Canada is going to be carried by other than railways, at least substantial quantities of it. It seems to me to involve the loss of a considerable volume of potential revenue.

Mr. GORDON: Any pipe lines that we have seen projected, which we have had an opportunity of examining, do not work out from an economic analysis as something that we care to recommend.

The capital cost and the operating possibilities are such that we would be heading right into a very substantial subsidy of a character that we cannot see ourselves justified in recommending because of many other things. It carries no particular advantage to the railway to undertake the operation of a pipe line if it means drawing on the government for a subsidy.

Mr. FULTON: When you say "subsidy" do you mean for the cost of construction or do you visualize you would not operate at a profit?

Mr. GORDON: Either way. If we were to build it, of course, and had a very heavy capital subsidy we could perhaps reduce our capital cost to a basis where we would show an operating profit. That is one way of doing it but that would be a substantial sum. But we do not recommend that spending of government money. If we built it ourselves and undertook the capital cost then we believe the operating cost would be such that there would be continual annual subsidies needed to cover operating costs.

Mr. FULTON: Is it not fair to say that that would seem to be at variance with the various statements made by the pipe line companies who certainly appear to think that they will be operating at a profit?

Mr. GORDON: Maybe, but that is the best judgment we have got.

Mr. MOTT: Mr. Chairman, would such a proposition not run the railway into the same position as they are now with their lines running all over the country? What I mean to say is if some little oil wells are found somewhere the railways pipe line would be under pressure to run all over the place to pick up these little oil wells and that would land us back to the position that the railways are in today—a situation that we have been condemning to a certain extent, the railway having to run tracks all over the place due to pressure by politicians and others wanting lines in their vicinity.

Mr. GORDON: If I may add this, I am speaking from the standpoint of the railways. I am not suggesting that the pipe line companies with their own methods of operation could not come out with an operation which would be advantageous. But after all there is nothing in the operation of a railway which gives it a particular advantage in building a pipe line. Pipe line economics are quite different from railway economics because the pipe line almost ignores topography. It is a straight line proposition, as the crow flies more or less, and when you put it on that basis there is no more reason for the railway to go into carrying oil or into the oil business than for us, for instance, to run a bakery,

because the essential point is that the oil companies ordinarily are the people sponsoring oil pipe lines. Pipe lines are usually tied in with all the major oil companies or with those who supply the load and can guarantee the load.

Now, I have thought, as you did, Mr. Fulton, in my early stages of being a railway president that the obvious thing was that the railways might well go into that business, but looking at it as a practical proposition there is no particular advantage to the railways, as far as I can see, except enlarging its operation and adding to the problems of management. It comes to the point that the problems of management in terms of size have to be considered. Tying it into railway management would give us no advantage so if there is to be a government oil pipe line in Canada it would be better handled as a separate company because neither the skills we have in the railway, in the matter of mechanical or technical skills, lead into any particular savings in the matter of operating a pipe line.

Mr. FULTON: I appreciate those views and I do wish to make it clear that I was approaching it from the economic point of view and not from any standpoint of policy with regard to public ownership or other point of view. The railways are in the transportation business now. Pipe lines are also going to be in the transportation business. The railways do carry substantial quantities of oil now. You are in danger of losing all that business and, therefore, a certain amount of revenue. Now, those are the considerations that I am interested in and I am glad to have your reaction to the problems from the railway point of view.

Mr. GORDON: I feel a little guilty, as I may have said something which may be misinterpreted and I want to repeat that I am not suggesting at all that other qualified people who are in the business of operating pipe lines and who have proper associations with oil companies and have the skills and techniques and what not, I am not suggesting for a moment that they cannot build the pipe lines and operate them profitably. I am merely pointing out from the standpoint of railway management there is no advantage with us. It would be rather the reverse. We would have to build up an entirely new organization and I doubt if we could hope to do it as efficiently as the people who are in that business.

Mr. FULTON: There was an application for a pipe line to the Pacific coast in which the route was described as following your line of railway to the coast with the exception of a relatively small diversion from Kamloops to Hope. That struck me as another reason why this pipe line might be of interest to you. But I take it that your position is that you do not see that the loss to the railways in revenues from the transportation of oil becoming the exclusive concern of the pipe line is not of sufficient moment to justify you overcoming the other hurdles.

Mr. GORDON: We do not see how we can attempt it. We have had discussions with people about following our right of way and we have indicated that provided we have proper understandings and agreements we will co-operate with them.

Carried.

The CHAIRMAN: Operating expenses.

Mr. FRASER: On prices of materials, on page 9. This year that will be increased by two per cent because of the increase in sales tax, will it not?

Mr. GORDON: That is right. We figure that our increased cost will be between \$2 million and \$2½ million by reason of the two per cent increase in the sales tax.

Mr. FRASER: You are going to feel the high cost of living too.

Mr. GORDON: What do you mean "going to feel?"

The CHAIRMAN: Employee pensions.

Mr. KNIGHT: I am interested in this business of railway pensions—and particularly in the matter which was brought up in the house the other night.

Mr. FULTON: Might I suggest that there is another section of the report dealing with that? I know we are all interested in railway pensions.

The CHAIRMAN: If you will indicate the paragraph I will make a note of it.

Mr. FULTON: The third paragraph on page 5.

Carried.

The CHAIRMAN: Other income accounts, page 9.

Mr. FRASER: Do you contemplate retirement of any bonds this year?

Mr. GORDON: Yes, you will find if you turn to page 33, an item of \$48 million due in New York on September 1, 1951, being an issue of $4\frac{1}{2}$ per cent twenty-year guaranteed gold bonds. This amount will have to be dealt with on maturity in September 1951.

Mr. FRASER: You contemplate refunding those at a lower rate of interest?

Mr. GORDON: I should say this that with respect to our intentions on financing that is market information we should not be asked to divulge. I am merely stating here that this issue will mature on September 1.

Carried.

Mr. FULTON: It is stated that capital expenditures amounted to \$38 million, of which \$21 million were for new equipment, whereas on page 10 you say in the third paragraph:

On March 15th, 1950, a \$22,000,000 issue of $2\frac{1}{4}$ per cent Ten Year Serial Equipment Trust Certificates, maturing semi-annually in equal principal instalments, was sold at a cost of 2.37 per cent. This issue provided approximately 75 per cent of the cost of acquisition of new equipment.

So that on page 10 you say \$22 million was only 75 per cent of the cost, whereas on page 9 you say \$21 million was the cost. What was the actual cost of the new equipment?

Mr. GORDON: There is an overlap there. The issues of 1949 and 1950 overlap and you cannot trace from the actual financial statements what will match up with the actual new equipment we bought. The equipment trusts are financed to the extent of 75 per cent on delivery, but there may have been some equipment in the 1949 budget that was not delivered until 1950, and we only finance it as the equipment is delivered. Those two figures will not jibe.

Carried.

The CHAIRMAN: New construction.

Mr. CARTER: There is no mention here of the new pier at Sydney. Does that not properly come in here?

Hon. Mr. CHEVRIER: That comes under the estimate items.

Mr. McLURE: On new construction, is it the intention of the Canadian National Railways to build a new bridge over the Hillsborough river to accommodate the traffic from Charlottetown down to Murray Harbour? This bridge has been condemned and the traffic now, the passenger traffic and freight, comes up the 46 or 56 miles from Murray Harbour and stops at Southport. What arrangements are there for carrying the traffic across?

Mr. GORDON: We have made an offer to the province of Prince Edward Island whereby if they will grant us the necessary licences we will operate a bus service between Charlottetown and Murray Harbour on approximately the same time schedule of train, and the railway would be in a position to offer even better service. We said that during the period when the highways are

closed to bus operation the Canadian National Railways would operate a train from Murray Harbour to Southport and co-ordinate that service with bus operations to Charlottetown.

That offer was made on receipt of a letter from the premier in which he pointed out the situation with respect to the Hillsborough bridge but I have not received an answer to our proposal. The Board of Transport Commissioners has condemned the bridge for railway operations, and we are not permitted to use it. On a previous occasion we had offered the province the bridge in the event that they wanted to use the piers for the trans-Canada highway bridge, but we pointed out we were not prepared to join with them in the construction of a new bridge because we did not propose to run a railway over it.

Mr. McLURE: The piers are not condemned.

Mr. GORDON: No, the piers are not condemned. The piers themselves, we believe, can be used in the construction of a new bridge. Even on the basis of a modern up-to-date bridge on piers the cost would represent a very substantial capital cost. Now, we have said that we are prepared to turn that over to them without cost, that is with the approval of the government, and we have that, but we do not intend to join in the cost of a new bridge because we feel we can provide a better service if we can get the bus and trucking licences we have asked Prince Edward Island for now.

Mr. McLURE: Of course, when you were asking for that franchise you were asking at that time for the whole island, and that would interfere with private enterprise entirely. I do not think you can ever anticipate getting a franchise of that kind.

Mr. GORDON: If that is so, I think it is a great pity because we have made an offer which would materially improve the service to the citizens of Prince Edward Island both in regard to passengers and in regard to freight. We have furthermore made a very reasonable offer to protect the existing operator there in respect of his revenues and I think anybody who would look at what we have offered would say that the railway has gone a long way to work out a reasonable compromise. However, the matter as it stands now is that we have been refused the franchise, and there was a resolution of the legislature to that effect which is recorded here. The Canadian National, as I say, has not been successful in obtaining the required highway franchises from the government of Prince Edward Island and the extract from the legislation reads as follows:

Be it therefore resolved by this assembly that the present time is not opportune for the granting of public licences or franchises to the Canadian National Railway.

I am afraid I cannot refrain from the comment that we have on the one side criticisms of our service and yet, when we stand ready to materially improve that service and modernize it—which we had intended by co-ordination with the dieselization of all our operations in P.E.I.—we have been prevented from carrying out our plans. The dieselization plan which we put in P.E.I. is a model plan, and it was predicated on our co-ordinating it with collateral bus and truck service. Your province is not getting the benefit of the improvements we have had in mind for your service by reason of the fact that we are not getting these franchises.

Mr. McLURE: If you had asked for a franchise from Charlottetown on the Murray Harbour line alone I do not believe you would have had a refusal on that. It was understood that you wanted a franchise for the whole province?

Mr. GORDON: Not in my last letter. We want it for the whole province for the reasons I gave but on March 13, 1951, when the Hillsborough Bridge situation came to an issue by reason of the bridge being condemned I went back to

Premier Jones with the proposition that I read a moment ago—if we could get a specific franchise to carry it out. I have not received any answer but the province has filed an application before the Board of Transport Commissioners petitioning that the railway is not relieved from running the service over the bridge. What comes out of that depends on the public hearings to be held sometime in June in Charlottetown and which will deal with the whole subject of the Hillsborough Bridge. Whether we get an opportunity at that time to present our full dress plan for a bus and truck operation on the island I do not know. If we are not allowed that we will specifically press this more limited plan to which we have not had any response.

Mr. McLURE: There is an election down there and there may be a change in government.

Mr. GORDON: That sort of thing never occurred to me.

Mr. McLURE: I was just going to ask one more question on the building of a new bridge there. The underpinning, caissons, or whatever you call them are still in good repair?

Mr. GORDON: Yes. The piers?

Mr. McLURE: Yes. The cost of that bridge originally was \$1,300,000, I suppose?

Mr. GORDON: The cost was \$1,538,813.

Mr. McLURE: Say \$1½ million, and today I suppose you could not put the top on for that much?

Hon. Mr. CHEVRIER: Let alone the bottom?

Mr. GORDON: That is quite true, but by the same token today the cost of sinking those piers would also be a very substantial item. You would not have to put in new piers.

Mr. McLURE: No—

Mr. GORDON: And that is a donation made by the Canadian National Railway with the authority of the federal government as a contribution to the cost of that bridge, and it is a very substantial part of the cost. I am just making a wild guess but it would be on the order of 50 per cent of the cost.

The CHAIRMAN: Mr. Gillis?

Mr. GILLIS: On this matter of new construction, in answer to a question from myself when we were here last year, Mr. Gordon, you stated that if and when the Minister of Transport had the approaches to that bridge at the Strait of Canso laid out your organization was prepared to go ahead with the shifting of the terminals and other related work. Is that still the position?

Mr. GORDON: We are ready to go ahead as soon as we know what is ready to be done.

Mr. GILLIS: The minister at least expects in July to have the approaches ready.

The CHAIRMAN: I do not want to ask the committee but I am going to make a suggestion which I hope you will agree with. We have now covered the narrative part of this report quite fully. May I mark the rest of it "carried", and turn to the accompanying letters?

Mr. FULTON: Far from it. My questions are related to specific parts of the report. I do not propose to engage in general discussion until we get back to the letter.

The CHAIRMAN: Would it not be covered by the letter?

Mr. FULTON: No.

Mr. FRASER: Does the revenue from the International Aviation Building carry the charges on the building?

Mr. GORDON: Yes, we have the figures on that and I think it does. The revenue from the building is more than sufficient to cover all of the proper charges including the interest on the land; 5 per cent sinking fund charge to amortize the cost of the building in 31 years with interest at 3 per cent; all taxes; maintenance and operation. All those proper charges have been made against the revenue and the net result is after covering those charges we made a profit last year of \$22,000. We still have some space not rented. The figures I gave you are based on the assumption that the space is all rented but there is about \$25,000 of space not rented. At the moment we are just about breaking even. When we rent the space we have available that will be pretty much profit.

Mr. FRASER: Have you any calls for it?

Mr. GORDON: Yes. We do not expect very much difficulty in renting the whole thing.

The CHAIRMAN: Shall "new construction" carry?
Carried.

Motive power?
Carried.

Passenger equipment?

Mr. CARTER: Is it permissible to inquire about steamship passenger companies?

The CHAIRMAN: I think it would be much better to discuss that on the accompanying letter.

Mr. CARTER: I refer to coastal steamships of Newfoundland. As long as you specify a paragraph I am content.

The CHAIRMAN: We will note that for you. I will give you a firm undertaking that you will have the right to discuss this under a budget item.

Mr. McLURE: There was nothing said about the new hotel and office building under construction. Probably there will be an opportunity for that when we come to hotels.

Mr. GORDON: I think it is under the heading of hotels.

Mr. McLURE: It says on page 11—"will include an hotel and office building."

Mr. GORDON: On page 18 there is a heading dealing with hotels but if you are referring specifically to the Montreal situation it is covered in the letter of transmittal.

The CHAIRMAN: You are ahead of me. I am only at page 13—passenger equipment is carried, is it?

Mr. GILLIS: On this motive power I would like to ask this question. You have a program of dieselization east of Montreal on the freight runs, have you not?

Mr. GORDON: Yes.

Mr. GILLIS: Would you give me an idea of how many you expect to put on there?

Mr. GORDON: We have been studying our whole dieselization program. There has been a very intensive study and it is not yet finished. I presume you are speaking in your question of the fast freight run between Montreal and Halifax. There are ten 3,200 horsepower locomotives nearing completion that will be assigned to that run. Five locomotives should be running on the first of May; the other five when delivered.

Mr. GILLIS: Is it intended that they go east to points other than Halifax?

Mr. GORDON: My record is just Montreal to Halifax.

Mr. MACDONALD: Where in this transmittal letter can we talk about coal as it relates to motive power?

The CHAIRMAN: I would rather that Mr. Gillis finish his question.

Mr. GILLIS: It is all right.

The CHAIRMAN: Are you satisfied?

Mr. GILLIS: I am not satisfied but that is what I wanted to know.

Mr. MACDONALD: Will we be given an opportunity to ask questions about the use of Alberta coal? It could be discussed when discussing motive power or when discussing the transmittal letter.

The CHAIRMAN: I think this is a good place.

Mr. MACDONALD: It is reported to me that the railways are adopting a rather strange arrangement with the mines in Alberta and that they are only giving them about three weeks' orders in advance. The mines are quite concerned about that; they are quite concerned about furnishing a lot more coal to the C.N.R., I was wondering if the C.N.R. had any economic limits over which they cannot use it. It is my understanding that the C.P.R. is purchasing Alberta coal and using it to the head of the lakes. My report does not indicate that is the policy of the C.N.R.

Mr. GORDON: I do not understand your reference to three weeks' supply.

Mr. MACDONALD: I understand that you are only ordering from those mines three weeks in advance, instead of having some policy of several months' supply and giving them an opportunity to gear their operation accordingly.

Mr. GORDON: I have not heard of it. I doubt if it is true and I will get specific information for tomorrow. We do use Alberta coal as far east as we figure it is economical with reference to the break-off with American coal competition. We are, generally, in the same area on break-off as the C.P.R., subject to the location of our lines.

Mr. MACDONALD: I understand that the C.P.R. has been purchasing coal in Alberta and using it to the head of the lakes. It does not appear to be the policy of the C.N.R. to do that.

Mr. GORDON: We have been purchasing Alberta coal to the full extent we can get it up to where the economic limit is in respect of American coal competition. The break-off point is not necessarily the same because the C.P.R. have coal mines on their lines which we have not. They have more coal mines located on their lines and it enables them to take more Alberta coal, relatively, than we do.

There is no program in respect of the Canadian National management which is antagonistic to Alberta coal. We want all the Alberta coal we can use within the economic limits.

Mr. MACDONALD: You are not necessarily antagonistic to Alberta coal but at the same time it is not being used. I would like to draw your attention to the coal producers' claim that they actually provide coal to the C.P.R. and they would like to see you use it within the same economic limits—in relation to the use of coal existing with the C.P.R.

Mr. GORDON: We have given them that assurance already. I just do not follow your suggestion that there is a limitation of three weeks.

Mr. MACDONALD: Possibly, Mr. Chairman, I could refresh my memory from some information I have and then bring this question up again.

The CHAIRMAN: Very well.

In regard to our meeting tomorrow I should say that another committee has priority on this room. Notices have been sent out and have appeared in Votes and Proceedings. We have been able to obtain Senate Committee Room 368 and we shall adjourn now to meet at 11 o'clock tomorrow in that room.

HOUSE OF COMMONS

MAY

1 1951

SESSION 1951

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

CHAIRMAN—Mr. HUGHES CLEAVER

MINUTES OF PROCEEDINGS AND EVIDENCE

SECOND REPORT TO THE HOUSE

TUESDAY, APRIL 17, 1951

No. 2

C.N.R. Annual Report (1950) and Budget (1951).
C.N. Steamships Limited (1950) and Budget (1951).
C.N.R. Securities Trust (1951).
Auditors' Report to Parliament.
Estimates—Items 493, 495 and 501.

WITNESSES:

Mr. Donald Gordon, Chairman and President;
Mr. S. F. Dingle and Mr. T. H. Cooper, Vice-Presidents;
Mr. T. V. Gracey, Comptroller;
Mr. F. P. Turville (G. A. Touche & Company).

REPORT TO HOUSE

WEDNESDAY, April 18, 1951.

The Sessional Committee on Railways and Shipping, Owned, Operated and Controlled by the Government, begs leave to present its

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1952, referred to it on April 11, 1951, and recommends their approval, namely:

Vote 493—Prince Edward Island Car Ferry and Terminals—Deficit.

Vote 495—Canadian National (West Indies) Steamships Limited—Deficit.

Vote 501—Maritime Freight Rates Act—payment of 20 per cent reduction in tariff of tolls to Canadian National Railways and other Railways operating in territory fixed by the Act.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, April 17, 1951.

The Sessional Committee on Railways and Shipping, Owned, Operated and Controlled by the Government met at 11 o'clock this day. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Benidickson, Bourget, Carter, Cavers, Cleaver, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell, McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Hon. Lionel Chevrier, Minister of Transport; Messrs. Gordon, Gracey, Dingle, Cooper, May, McDonald and Lash, Canadian National Railways; Messrs. Lessard, Collins, Thornton, and Paradis, Department of Transport.

The Committee continued its examination of Mr. Gordon on the Canadian National Railways Annual Report and the letter of transmittal thereof.

A schedule relating to block signalling (Kamloops division) was ordered printed as an appendix (*see this day's evidence*).

On motion of Mr. Fraser:

Resolved,—That the Committee meet this evening at 8 o'clock.

At 1.05 p.m. the Committee adjourned until 4 o'clock this day.

AFTERNOON

The Committee resumed at 4 o'clock. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Benidickson, Bourget, Carter, Cavers, Cleaver, Fraser, Fulton, George, Gillis, Healy, James, Knight, Macdonald (*Edmonton East*), Macdonnell, McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as listed in the morning.

Mr. Gordon's examination of his letter of transmittal was concluded. He was assisted by Messrs. Cooper and Dingle.

A table respecting the reconstructed results of operation (1950) was ordered incorporated.

The Chairman tabled a letter from Mr. Paul-L. Dubé, (*Restigouche-Madawaska*). It was agreed to hear his representations following the discussion on employees' pension plan.

Referring to the pension plan, the witness read a joint letter from A. A. Hutchinson, Chairman, General Chairman's Association, Canadian National Railways, to Messrs. Diefenbaker and Knowles, copies of which were sent to himself and to the Minister of Transport.

Mr. Pouliot thereupon tabled a petition and a copy thereof in respect to the superannuation of former employees of Canadian National Railways.

By leave of the Committee, Mr. Dubé was heard.

A brief discussion took place on procedure.

Fuel, rail and highway traffic, and signalling equipment were discussed at some length.

The Committee concluded its examination of the witness on the pensions plan.

At 6 o'clock, the Committee adjourned until 8 o'clock this evening.

EVENING

The Committee resumed at 8 o'clock. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Benidickson, Bourget, Carter, Cavers, Cleaver, Fraser, Fulton, George, Gillis, Healy, James, Knight, Macdonald (*Edmonton East*), Macdonnell, McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same.

BUDGET (1951), CANADIAN NATIONAL RAILWAYS

Mr. Gordon was called and questioned on the Budget (1951) of the Canadian National Railways. He was aided by Messrs. Dingle and May.

On motion of Mr. McCulloch,

Resolved,—That the Canadian National Railways Annual Report (1950) and the Budget thereof (1951) be approved.

On motion of Mr. McCulloch,

Resolved,—That the Budget (1951), Canadian National (West Indies) Steamships Limited be approved.

Mr. Gordon gave answers to questions previously asked.

SECURITIES TRUST

On motion of Mr. McCulloch,

Resolved,—That the Canadian National Railways Securities Trust (1950) be adopted.

AUDITORS' REPORT TO PARLIAMENT

Mr. F. P. Turville of Georges A. Touche & Co., was called and briefly examined.

On motion of Mr. Fulton,

Resolved,—That the Auditors' Report to Parliament (1950) of the Canadian National Railways System and Canadian National (West Indies) Steamships Limited be taken as read and adopted.

RE ESTIMATE REFERRED

On motion of Mr. McLure,

Resolved,—That Item 493—Prince Edward Island Ferry and Terminals—deficit, be approved.

On motion of Mr. McCulloch, Item 495—Canadian National (West Indies) Steamships Limited—deficit, was approved on division.

On motion of Mr. McCulloch,

Resolved,—That Item 501—Maritime Freight Rates Act—payment of 20 per cent reduction, etc., be adopted.

Ordered,—That the Chairman report accordingly.

Messrs. Gordon, Gracey, Dingle and Turville were retired.

The Chairman expressed the Committee's appreciation to Mr. Gordon. Mr. Gordon voiced his determination to discharge his responsibilities to the best interests of Canada's railway systems.

Before adjournment, Mr. McLure expressed the hope that the Committee be given an opportunity to meet in Montreal next year.

At 10.10, the Committee adjourned at the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

EVIDENCE

HOUSE OF COMMONS,

APRIL 17, 1951.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. Are there any further questions on motive power? If not, I shall declare the item carried.

Mr. MACDONALD: Yesterday, Mr. Chairman, a question came up about coal. I accept Mr. Gordon's answer with regard to the three weeks. I obtained that information from a private source and until I have it confirmed I would not like to pursue it. But with regard to the economic limits of using coal from the Alberta coal fields, it has been brought to my attention that the Canadian Pacific use more coal coming from Alberta than do the Canadian National. So I was wondering if Mr. Gordon could advise us this morning as to what he, and his management, consider to be the economic limits of using Alberta coal on the system east from the Alberta coal fields.

Mr. GORDON: I think I said yesterday, Mr. Chairman, that our position is not exactly comparable to that of the Canadian Pacific.

The economic area is based in part on the subventions which are applicable to certain of these coals. Probably you are familiar with them. They take into account the difference in efficiency of coal and so forth.

Our general break-off point is the Manitoba-Saskatchewan boundary, in respect to competitive coals that meet us at that point and which we can buy cheaper, all things considered. But we make full allowance and we credit the Alberta coal, so to speak, with the allowance of the subsidy, and also we take into account the difference in efficiency which varies considerably with different types of coal.

Our general economic break-off point is the Manitoba-Saskatchewan border. It has never been our practice to have contracts with the Alberta coal mines because they have not wanted them. Over the last ten years they did not want such contracts because, without them, they could sell their coal to anybody, a thing which they could not do if they were tied down by contracts to the Canadian National. So they have been selling us coal on the basis that they could not sell it better to somebody else.

I have talked with Montreal on the telephone about it. The situation varies in respect to each mine, and we are just taking coal as we can buy it. But if any mine in western Canada wants to talk to us in terms of an annual contract, we would be glad to talk to them. Does that answer your point?

Mr. MACDONALD: Thank you very much.

Mr. THOMAS: Did you say that Manitoba-Saskatchewan border or Manitoba-Ontario border was the breaking point?

Mr. GORDON: I said the Manitoba-Saskatchewan border.

Mr. THOMAS: I think I asked a question about the Manitoba-Ontario border.

Mr. GORDON: There is a qualification which perhaps I should try to explain although I greatly fear it will only confuse you. But I will do the best I can. Under certain conditions of subvention we could bring coal as far east as the

Manitoba-Ontario boundary, but under the regulations of the Dominion Coal Board, the subvention does not become applicable on the basis that we want it to become applicable, having regard to the relative efficiency of coal.

As I have said, I fear that I am confusing you. But the practical result is that there is a difference of opinion as to how the subsidy becomes applicable. The Canadian National break-off point is the Manitoba-Saskatchewan border. But if we could get a different interpretation of the application of the subsidy, and if we could have our point of view accepted as to the relative efficiency of the coal, then that subsidy, if made applicable to our formula, could bring Alberta coal as far east as the Manitoba-Ontario border. The subvention itself can be applied to coal brought as far east as the Manitoba-Ontario border.

Mr. MACDONNELL: Who is it that has the say, or thinks that your point of view is unreasonable?

Mr. GORDON: I would not suggest, Mr. Chairman, that because my point of view is not adopted that the opposing view is therefore automatically an unreasonable one. But there is a difference between the Dominion Coal Board and ourselves with respect to this question of coal subvention.

Mr. MACDONNELL: Who is going to win?

Mr. GORDON: The fellow with the purse strings always wins. The Dominion Coal Board in this case holds the purse strings.

Mr. THOMAS: What is the relative efficiency of Brazeau or Nordic briquettes when compared with fuel oil?

Mr. GORDON: There is a figure for that. I do not know if I can give it to you right off hand but I could get it for you. We have got a figure which analyses the relative efficiency of all coal, with the relative efficiency of particular types of oil. It is a technical matter and if you would let me have your question specifically, I would be glad to get it answered for you.

The Brazeau coal at the moment is out of business because of the disaster which they had there. They do not expect to be back in business until July or August, if my memory serves me correctly. Brazeau is a mine with which we can make quite satisfactory arrangements. Let me check on that.

Brazeau is a mine from which we have had coal consistently, as you know. Right now it is out of business because of the fire. But they will be back in business in July or August and when they start producing again, we will approach them on the question of their coal. You want to know the relative efficiency of Brazeau coal as a fuel compared with oil?

Mr. THOMAS: Yes.

Mr. GORDON: That will require an analysis in terms of BTU's, in terms of the quality of the coal, and we will get that for you.

Mr. MACDONNELL: At first I got the impression that this question which is before the Dominion Coal Board was still under consideration; but later on I got the impression from Mr. Gordon that it was not under consideration.

Mr. GORDON: It is not under consideration currently for the reason that the Dominion Coal Board have given their ruling that they will not apply a subsidy on the basis which we think ought to be made applicable in terms of the quality and the definition of coal. I want to be fair in this respect. After all, it is a matter for their judgment. They did not agree with our representations. That is the point.

Mr. GILLIS: I would like to ask Mr. Gordon if he could tell us, in placing those ten diesel engines on the run between Halifax and Montreal, to what extent they will have replaced coal on those runs?

Mr. GORDON: Coal will be replaced on those particular engines but at the present time it will not reduce the quantity of coal we will take from eastern Canada. In other words our deficiency is still sufficient that we can buy all the

coal that is offering within the economic limits I described last year. And we are still in that position. We cannot get enough coal out of eastern Canada; in other words, we could buy more coal if it were available.

Mr. FRASER: What about the 47 conversions from steam to oil? Would they not make quite a difference in the western regions?

Mr. GORDON: That is right. Those oil conversions have brought about a reduction in the amount of coal that we would otherwise want to get from the Alberta mines.

Mr. FRASER: That will save you in operating costs, will it not?

Mr. GORDON: Oh very definitely, yes.

The CHAIRMAN: "Passenger equipment".

Mr. KNIGHT: With respect to motive power, might I ask if that heavy type of oil in the Lloydminster field is suitable for use in locomotives?

Mr. GORDON: Bunker C oil is used in our oil burning locomotives; but diesel oil is used in our diesel operations. In western Canada our operations are almost entirely oil burning. In fact, west of Edmonton we operate entirely with a converted type of oil burning locomotive in which we use bunker C oil. I might say that we are concerned about the supply of bunker C oil and we would like to see a very much greater development at the Lloydminster field.

The CHAIRMAN: "Passenger equipment."

Mr. McLURE: In connection with dieselization of the Prince Edward Island railway, were there many employees who lost their jobs on that account, or were they taken care of in some other capacity?

Mr. GORDON: We have not got the exact figures available, but Mr. Dingle tells me that by and large the men were taken care of in other capacities.

Mr. McLURE: There was very little snow down there last year. The theory was that diesels might not do as good work in heavy snow storms? Is there any experience in that connection with diesel engines working in snow?

Mr. DINGLE: We have had no difficulty.

Mr. GORDON: You are saying that if there had been heavy snow, would we have expected trouble from diesel operations?

Mr. DINGLE: No, we would not expect trouble, unless there were extremely unusual conditions.

Mr. GORDON: And not any more trouble than you would expect with steam locomotives.

Mr. DINGLE: That has been our experience with diesels.

Mr. McLURE: What is the horse power of those engines?

Mr. DINGLE: 600 horse power.

Mr. McLURE: Generally speaking, they are giving good satisfaction?

Mr. DINGLE: Yes, sir.

The CHAIRMAN: "Passenger equipment".

Mr. FRASER: On the subject of equipment, I notice under equipment orders and deliveries there are eight different kinds of equipment that are going to Newfoundland. What is the total outlay for Newfoundland this year?

Mr. GORDON: Are you referring to 1950?

Mr. FRASER: 1950, yes. Deliveries of new equipment during 1950; and I notice a note at the bottom of the page as follows:

"Some of this equipment will not be delivered until 1952."

Mr. GORDON: The table you are looking at refers to orders. Now you will see the following paragraph in the middle of the page:

"Orders outstanding at the end of the year covered the following equipment. Except where otherwise noted, deliveries are expected in 1951."

Where you have a star there, you will see that that equipment is not expected until 1952, although it has been ordered and placed on order.

We are particularly uncertain this year about deliveries. We have had our orders specified for a considerable time, but the dates for delivery have been postponed again and again so we are in a condition of considerable uncertainty as to when this equipment we refer to here will actually be delivered.

Mr. FRASER: You do not know what the value will be?

Mr. GORDON: Yes, I could tell you. Are you referring to these particular things here?

Mr. FRASER: Yes.

Mr. GORDON: I will run my eyes down the list.

Mr. FRASER: You have got it for freight car equipment. You have got 30.

Mr. GORDON: There are 25, 30-ton automobile cars for Newfoundland, and they are estimated to cost \$149,850.

There are 60 30-ton box cars for Newfoundland which are estimated to cost \$330,480.

The next item is for baggage cars for Newfoundland which will cost us \$152,280.

Then we have got 40 30-ton box cars for Newfoundland which are not confirmed, but we believe they will run at the same price. I have not got that total here. What are they running at, about \$6,000? They run roughly about \$6,000 a piece.

Mr. FRASER: Where are they made?

Mr. GORDON: In Canada. The order is actually placed with Eastern Car, is it not; and that is \$240,000 for those 40 30-ton box cars. I am giving you these as estimates because they are not actually confirmed yet.

Now, there will be six sleeping cars for Newfoundland.

Mr. FRASER: Are those steel?

Mr. GORDON: They would be steel, yes.

Mr. FRASER: Are those all single or standard gauge?

Mr. GORDON: Those would be narrow gauge, specially built for Newfoundland. Just at the moment I have not got that figure here. Six sleeping cars for Newfoundland are estimated to cost us \$518,400.

Then there are three mail cars for Newfoundland which are estimated to cost us \$167,670.

Mr. FRASER: And will they be steel too?

Mr. GORDON: Yes, they will be steel.

Then there are ten express refrigerators, which will cost us \$172,800.

There are 20 30-ton air dump cars, which will be roughly \$95,000.

Mr. FRASER: Then you have an eight-wheeled diesel wrecking crane.

Mr. GORDON: I cannot give you that because the order has not been placed, and we have not got estimates on it. Could you give us a guess on that, Mr. Dingle? I would rather not guess myself because I think it might give away our idea of price to the manufacturers.

Mr. FRASER: Does it cost more for the narrow gauge than for the standard, on account of the difference?

Mr. GORDON: Yes, it costs more because it is a special item; it is not built to standard specifications, so it costs more. But it is hard to say what.

Mr. FULTON: You said that the 40 30-ton box cars were estimated to cost \$240,000. That brings it out to \$6,000 a piece. Would you check that?

Mr. GORDON: You are right. I took the figure for automobile cars at \$6,000. I think I can give you that specifically now.

Mr. FRASER: You gave us a figure for the 60 30-ton box cars I think in the first item.

Mr. GORDON: That is right; 30 box cars for Newfoundland.

Mr. FRASER: Will cost \$330,380, I believe it was.

Mr. GORDON: No.

Mr. FULTON: You gave us \$240,000.

Mr. FRASER: But that was for the 60 cars, I think.

Mr. GORDON: Anyway, the box cars for Newfoundland are estimated to cost \$5,000 apiece.

Mr. FULTON: Well that is considerably less than I would have thought. Are they steel?

Mr. GORDON: Yes, they are steel.

Mr. FULTON: You must have a good buying department to get them for you at that low price.

The CHAIRMAN: "Signalling equipment."

Mr. FULTON: On this item, Mr. Chairman—

Mr. GORDON: I think you are right, Mr. Fulton, that looks very low to me. I shall just check it again. Yes, that \$300,000 was an estimated figure. The actual figure is \$343,620 for 60 cars. That would make it about \$5,700 apiece.

Mr. FULTON: I still say you must have a good buying department.

Mr. GORDON: That is quite a substantial increase over what we have been paying. The actual 40 comes to a total of \$224,280.

The CHAIRMAN: "Signalling equipment."

Mr. FULTON: I would like to ask a question, Mr. Chairman, in regard both to the installation of signalling equipment and to centralized traffic control, and the possibilities in the mountain region. I would like to emphasize it particularly and I would refer again to the accident which has been mentioned which occurred on November 21 of last year, and at least to two other derailments involving only an engine and a couple of box cars in the way of equipment but unfortunately involving loss of life—I mean the loss of life to the engine crew.

I would like to follow up the discussion we have had in the past with respect to slide detector fences and block signal systems. I asked a question about this in the House the other day and it was noted on April 4 as follows:

What progress has been made in the last twelve months in the installation of slide detector fences, block signal systems, and other safety warning devices on the main line of the Canadian National Railways between Red Cross Junction and Boston Bar?

And the answer given by the parliamentary assistant was as follows:

An experimental section of slide detector fence was placed in service on October 14, 1949, between mileage 93.7 and 94.0 on the Ashcroft subdivision. No further installations of slide detector fence have been placed in service beyond the experimental section.

The Canadian National has underway a well-defined program for the installation of automatic block signals for the entire distance from Jasper, Alta., to Port Mann, B.C.

I wonder if Mr. Gordon could amplify that statement and tell me whether he intends to instal further slide detector fences, and would he outline the program he has for block signals?

Mr. GORDON: Yes. Let me give it to you this way and you can check back if I have not answered your question.

The company has a program covering the period from 1948 to 1957 for the installation of automatic block signals from Jasper, Alta. to Port Mann, B.C., and the estimated cost of it is \$4 $\frac{3}{4}$ millions. That cost, incidentally, may be considered higher now, but that was the estimate at the time we originated the program.

The program in 1952 has covered only about 25 miles and the reason it is so small is that it has been necessary to complete other essential signal installations in the western region and also because the available supply of signal personnel and materials is very limited for these very technical installations.

It might be of interest to interject by way of explanation that it has been reported to me that there are 21 snow and rock sheds all of which are on the Kamloops subdivision.

Projects for the purpose of increasing the safety of operations between Jasper and Vancouver, including snow and rock detectors were authorized to be undertaken in 1950 to the total amount of \$2,604,000, and in 1951 to the amount of \$577,000, making a total of \$3,180,000.

That represents the authority that was given to the operating department to make these installations. Some of them represent an overlap from the authority that was originated in 1949. I would inform the committee that our progress in that respect has been very slow and that of the total of that program, roughly about \$490,000 has been completed. The reason for the slow progress has been largely due to our difficulty in getting materials and also in engaging a sufficient supply of technical and skilled personnel.

The Board of Transport Commissioners in their recent inquiry stated that the program laid out by the Canadian National for improving protection in 1951 for the Mountain Territory is adequate and all that can be expected for the current year having regard to the situation in respect to labour and supplies.

We are making a careful study of conditions throughout the mountains, and our program definitely includes as fast as we can the development of additional sheds and the provision of all reasonable protection that we can devise.

Turning specifically to your question concerning slide detector fences, I think it would be well at this time to give you a short description of what a slide detector fence is.

A slide detector fence is worked in connection with automatic block signals. It consists of an ordinary woven wire fence, made up into sections approximately fifty feet in length, and may be of any desired height. This fence is suspended on a messenger wire between posts at each end of the section. Coil springs are attached from the fence to the post, together with an electric circuit-breaker. The control circuits of the signals in each direction are taken through these circuit controllers and, when a slide occurs and strikes the fence, the circuit controllers are activated by the pressure of the slide and this in turn opens the circuit that controls the signals. The signals are usually located, in both directions, braking-distance from each end of the slide-detector fence.

An experimental section of slide-detector fence placed in service on October 14, 1949, is located between mileages 93.7 and 94.0, Ashcroft subdivision. Between November, 1949, and December, 1950, the signal went to STOP 180 times. Of the 180 times that signal was activated on only three occasions when there was rock on the track to a point that was dangerous. As the result of the fences being activated by relatively small and inconsequential slides, the number of days the fence was out of service was 143.

The vast majority of these STOP indications were caused by small rocks striking the fence and landing in the ditch clear of the tracks. These wide

ditches are provided wherever possible as a safety measure. From October 14, 1949, to December 31, 1950, it has been impossible to keep this fence in service for more than 65 per cent of the time because of slides and snow. Our officers are of the opinion that unless fences provide continuous protection they are of little value. Under conditions found in mountain territory on our lines, protection afforded by patrolmen and automatic block signals is regarded as definitely superior.

There can be no doubt that construction of permanent rock and snow sheds is the only real solution at points where rock and snow slides are of frequent occurrence. However, do to magnitude of such a program, progress must, of necessity, be slow.

As I said before, the Board of Transport Commissioners in the special inquiry expressed the view that our program is all that could be expected for the current year.

Dealing with the experiment, it is the opinion of our officers, who have been instructed by me to undertake detailed examination arising not only out of our requirements but having in mind your question, Mr. Fulton, that the experiment is wholly unsatisfactory at the present location and they propose to remove it and erect it in shorter sections at dangerous points, such as approaching tunnels, when automatic block signals have been installed. It has been found that, with a long stretch of fence, it was practically impossible to maintain it during the winter months on account of heavy snow, as the fence has been covered up entirely. Erection of additional long stretches of fences at this time would result in further delaying our program for block signal installations, signal forces would have to be transferred to fence installations, and run contrary to directions contained in the judgment of the Board dated January 18, 1951, in connection with the Canoe River inquiry to which you have referred.

In June of 1950 we installed another experimental section on the Yale subdivision. It is in operation although I have no report on it at the present time. Our considered opinion is we would be far better advised to concentrate on getting automatic block signals installed as fast as we can because we are convinced that is a much superior method of protection than the one afforded by the slide detector fences.

When you have a situation that a signal is put into the position of STOP and a large percentage of the time the operating people, engineers, and firemen, find there was no need for a stop signal, then there is great danger they will ignore it. As I said, out of the 180 times the signal signalled danger there was no danger. On only three occasions did danger exist. Our feeling is that it is a much better operation for us to intensify our patrolling of the line and provide our patrolmen in due course with proper instruments that will give signals in connection with the automatic block. Once we have the automatic block we can give them a shunter which enables them to cross two rails and place the signal at STOP. My feeling is if we find ourselves pushed in the direction of enlarging these slide detector fences delay will be experienced in the kind of protection which will be efficient in that territory.

Mr. FULTON: I appreciate your statement very much, Mr. Gordon, and I certainly would not lightly question the opinion of your officers, but I would like to ask you a further question. I think it may be necessary to gain further experience but I would like to say, for the benefit of this committee, that the matter is not of purely local interest. There has been a number of fatal accidents not caused by slides of major proportions at all, but simply because through this territory in the spring and fall thawing and wetness cause two or three rocks to tumble down on the track—just sufficient to derail the engine and the first one or two boxcars. It is that type of thing that has resulted in a number of distressing fatalities—one alone would be distressing, but there have

been two or three fatalities. I have found the expression of opinion is contrary to what Mr. Gordon has said about the fact that there was danger only three out of 180 times when the signal went to STOP. Mr. Gordon said that on the principle of familiarity breeds contempt they would disregard it. They say that on the contrary they know it won't be a dangerous condition each time the signal is alerted but the sense of security it gives them is one thing—and even accepting your argument that familiarity breeds a certain amount of contempt, nevertheless they would at least slow down so that if they found in fact it was a dangerous obstacle they would be able to stop. They discount altogether the suggestion that they would sail blithely on ignoring the signal no matter how many times it would be alerted on false alarms.

They say, and I want to say that it is not suggested there should be a continuous stretch of fence in the whole mountain region but rather it is only at danger points that these fences should be installed. I admit patrolling is necessary and I think a necessary addition, but the patrol can go along and a couple of rocks can fall behind it and the man can be as alert as anyone and not hear it. A major slide would be heard but these smaller ones would not be, and yet the rock might not be large enough to cross the tracks and affect your block system. I understand the slide detector fence would be sufficient to assess the danger whereas the block signal system would not be affected by these isolated rocks. I would therefore ask if you would reconsider this decision of abandoning the slide detector fence and reconsider the request to install them at proved danger points. That would not constitute a major obstacle in your whole block signal system program.

Mr. GORDON: I wish to assure you that as far as the management of the railway is concerned we are just as much concerned as anyone in the matter of avoiding accidents.

Mr. FULTON: I accept that 100 per cent.

Mr. GORDON: I did not mean to make too much of the psychological suggestion that familiarity breeds contempt. Moreover, I think it was Mr. Winston Churchill who said that without some familiarity we would never breed anything.

I would just question the sort of evidence that you are referring to in your talks with railway men. No railway man would ever admit that he would ever pass a danger signal any time. You talk to anyone; he would never admit that. The fact, however, is that these slide detector fences have been out of commission 143 days for various reasons, including snow. Now it is a dangerous thing to have a situation whereby a signal cannot be depended upon under given circumstances. How is the engineer of the locomotive on the particular piece of track to know that snow conditions may put the fence out of order? Once having passed over that sort of thing he might well say: "Oh, well, it must be snow again." There is a big psychological factor. I am not going to accuse them of ignoring the signals but I say the weight of evidence is that it is pretty risky to depend on them in that frame of mind.

I do not want you to assume because we have this feeling about slide detector fences that we have not taken alternative measures. We have intensified what we think is a better system, that is actually patrolling the line. On these danger points our patrolling is done as intensely as possible and that sort of protection, in our opinion, is superior to the slide detector fences.

We have installed another unit at Yale so we have not abandoned it completely. However, all our evidence is that we would do far better if we concentrated on a very limited amount of slide detector fence and get on with the much bigger expense and much bigger installation, giving much more protection, as represented by the automatic block signals. We feel as a matter of judgment that every day we lose in putting in what we regard as an ineffective signal system is just too bad in relation to the bigger program. This installation

of signals is a very technical matter and requires highly skilled staffs as well as material which is difficult to get under present conditions. I just don't like the idea of taking either men or material away from the bigger program.

Mr. FULTON: I can fully appreciate that, Mr. Gordon, and perhaps we can leave it and let the point rest for the time being and, if experience indicates reconsideration is necessary I will say that I am confident you will give it that reconsideration. I take it that I have your assurance?

Mr. GORDON: Yes, that is so, and I would like you to believe this and suggest it to the members of your constituency to whom you talk. The use of the slide detector fence may be demonstrated as a useful additional precaution after we put in the automatic block—as an additional protection. It may be found to be much more effective then, but we should not put the cart before the horse. We ought to get on with the major program first. If we find from additional experiment that there is an additional safety factor there we will have another look at it.

Mr. FULTON: Would you outline your program in a little more detailed way in connection with block signals? What subdivisions and mileages are you starting?

Mr. GORDON: I will read this schedule to you.

The CHAIRMAN: Mr. Fulton, I notice you are not following—

Mr. FULTON: I am following—I have another report here which I am following at the moment but I would be content to have this information put on the record.

(See appendix)

The report of the Board of Transport Commissioners on their inquiry into the Canoe River wreck dealt with the question of block signals first and urged that they be installed throughout the mountain territory as rapidly as possible. You have placed on the record your program for that work. It was also stated and I am reading from page 10 of the conclusions:

The Board, together with its technical officers, will, not later than the 19th of March next, arrange a meeting with the appropriate officers of the two major railways and the Railroad Brotherhoods affected to discuss the possibility of achieving greater safety in train operations, particularly in relation to the matters above mentioned in paragraphs numbered 1 to 5 inclusive.

Those paragraphs dealt with the matter of block signals. Can you tell us if the meeting was held and whether any specific recommendations have been put forward, and what action if any, you have taken to meet them.

Mr. GORDON: The meeting was held. It was a general inquiry and the Canadian Pacific Railway and ourselves were present. The meeting was held on the basis of a general inquiry into accident precautions that might be intensified on the whole of the operations of both railways. I have read the report but I am sorry I did not bring it with me. I do not know whether Mr. Dingle has a summary of the recommendations or not.

Mr. FULTON: I was particularly interested, Mr. Gordon, in a statement from you, if you are in a position to make one, of the action your company has taken to implement any recommendations which were arrived at for safety in the mountain areas.

Mr. GORDON: Well, I can only answer that in a general way and I am speaking from memory. This report I have before me does not cover what I want. I can say, in a general way, wherever there is a specific recommendation made that seems to make sense we will certainly implement it to the fullest extent that we can.

Mr. FULTON: You do not have before you at the moment any series of recommendations arising out of that meeting?

Mr. GORDON: No, I have not got it at the moment. I have here a memorandum which dealt with the discussion of the various points but I have not the recommendations made.

Mr. FULTON: Perhaps we can allow that to stand for the time being.

Mr. GORDON: Mr. Dingle and I will talk about it during the lunch hour and see if we have anything specific on it. The meeting was comparatively recent and I cannot tell you whether anything is implemented; I can only tell you our plans. We made certain recommendations before the Board but what I am really looking for here is the end result.

Mr. FULTON: One other question, which I think will be final on this part—your program of block signal system installation is actually being speeded up. Have you been able to speed it up as a result of the inquiry before the Board of Transport Commissioners and their recommendations?

Mr. GORDON: I would say generally no, because we were pushing our program as fast as we were able to having regard to the materials, supplies, and manpower. This equipment is difficult to get. We have used every pressure we could and we have received every help we could from the departments of government. I cannot say it has been specifically speeded up as the result of the accident because we were going full pelt anyway.

Mr. FULTON: There is no help which this committee could give you by way of recommendations with regard to the allocation of materials and that sort of thing?

Mr. GORDON: I think this particular material is on as high priority as it can be and that every specific help has been given to us.

Mr. FULTON: Coming to that part of the report dealing with the centralized traffic control, on page 13, what centralized traffic control work through the mountains have you, or have you any program visualizing its ultimate installation?

Mr. GORDON: I will ask Mr. Dingle to answer.

Mr. DINGLE: We have none, but our present installations of block signals in the mountains are so set that should there be any need to convert to CTC we can do so, but at the present time the volume of traffic is not sufficient to call for centralized traffic control.

Mr. GORDON: It is true that we can put block signals in faster and CTC would be much more comprehensive and take longer. The first step is block signal control arranged so that later we can convert to CTC if the volume of traffic justifies.

Mr. MACDONNELL: May I refer to a phrase in the last paragraph on page 13. It says: "During 1950 work was begun on further extensions of centralized traffic control, a despatching system in which centrally controlled electric signals take the place of train orders or time table authority."

My question is: Are mechanical signals so absolutely dependable, so utterly free from failure, that you can entirely replace the human element, and I am not exaggerating the effect of that? For example, when I drive across a crossing with a wigwag on it, even though it is not working I look each way on the assumption that possibly the signal is not working.

Mr. GORDON: I can say that the centralized traffic control system is operated from a central board. Some day I would like to show you the one in Montreal. It is an interesting and worthwhile visit. If the system went out of order it would be immediately seen on that board and we would reinstate train orders and time table authority at once. On that particular section if the signals went out

of order the despatcher would know at once and he would immediately reinstate train orders and time table authority at the time the automatic signal goes out of order.

Mr. MACDONNELL: What happens to a train that is approaching a signal out of order.

Mr. GORDON: We can stop him running along. We still have signals that can be given to the train.

Mr. FULTON: I know there is a great deal of interest in this matter and I could point out two sentences from the findings of the Board. "A block signal system does not entirely eliminate the danger of accidents, for block signals conceivably could be disregarded by train crews, or in certain circumstances fail to operate effectively, but such a system throughout the mountain ranges would have provided an additional safety device of great value and efficiency and would probably have averted the accidents notwithstanding the conflicting train orders. The Board therefore recommends that the Canadian National Railway take necessary measures to install block signals in mountain territory and other dangerous parts of the C.N.R. system as speedily as possible. Other railways under the jurisdiction of the Board should do likewise in their mountain and other dangerous territory."

You will remember there was a controversy in the press over conflicting orders and I thought it important to place that finding on the record.

Mr. Gordon: I would like to say, dealing with that particular point, and also the point Mr. Macdonnell raises, that I do not suggest in any way that there is any form of signal device that eliminates manpower failure. Man failure can take place. It is significant that some of the worst wrecks on the North American continent, and in the United States, in particular have taken place in areas where centralized traffic control was in force. You just cannot eliminate the hazard that a man will go through red lights for some reason he never seems to be able to explain.

One other thing and then I would like to drop the subject—I hasten to add "if I am so permitted". I want to bring out the point that during the inquiry there was a good deal of talk about the use of radio. Evidence was given to the effect that radio, in its present stage of development, cannot be used reliably and consistently in mountainous country to control movements. This opinion has since been confirmed by experts of National Research Council and by the various manufacturers of radio equipment. The C.N.R. are keeping closely in touch with radio developments in the railroad field.

I just want to put that on the record to show that we are not ignoring any modern developments.

The CHAIRMAN: Shall maintenance of way carry?

Mr. CARTER: No. Mr. Gordon said, in reply to Mr. Fraser, that the narrow gauge equipment costs were higher than those for standard gauge. I wonder if that is also true of maintenance?

Mr. GORDON: No, it is not. Maintenance costs per mile are somewhat less than for the standard lines.

Mr. CARTER: That would even it off; that would balance it.

Mr. GORDON: If you want it I will give it to you, Mr. Carter.

The CHAIRMAN: You and Mr. Fraser ought to get together, Mr. Carter.

Mr. GORDON: I will give you some figures that I hope will satisfy you. We estimate that the expenditure on Newfoundland district maintenance of way of equipment is somewhat lower, and our estimate is that the relevant cost in Newfoundland is at the rate of \$8,635 per mile as compared with \$9,732 per mile. Having said that I want to point out that our expenditures in Newfoundland as budgeted for 1951 at the rate of \$3,325,945 would, if spending

were at the same rate for the rest of the system, have cost us \$65 million more than we actually spent on the rest of the system. There is a very large increase in expenditure on the Newfoundland railway under the present day conditions.

Mr. CARTER: I think the committee understood the purpose of the question was not my sensitivity about this extra burden business. I was just wondering if the cost of the equipment were higher than for replacement and, if the cost of maintenance also happens to be higher, surely that would be an argument for putting in standard gauge there, if only over a very long term program.

Mr. GORDON: I would hate even to guess at the cost of standard gauge in Newfoundland on the present road bed. You must remember that you are dealing fundamentally with a geographic factor. You have a railway there which has steeper grades, very much higher degrees of curvature; and to attempt to put a standard gauge on the present road bed would, I think, be foolish. So if we were talking about a standard gauge railway, my opinion would be that it would mean a new route altogether, because it would not be worth while spending an extraordinarily large sum otherwise. You are getting into a question of hundreds and hundreds and hundreds of millions of dollars when you talk about that.

The CHAIRMAN: "Maintenance of way equipment". Shall the item carry?

Mr. POULIOT: Will you please tell the committee what you intend to do with regard to the maintenance of way on the Temiscouata Railway?

Mr. GORDON: We intend to keep it at the same general standard as the rest of the system.

Mr. POULIOT: The same as the other parts of the system?

Mr. GORDON: Our program there is to bring all parts of the railway up to the same general standard, having regard to traffic elements and so forth.

Mr. POULIOT: What are your estimates in that respect for the current year?

Mr. GORDON: Could we not leave that until we come to the budget? I think we could cover it then.

Mr. POULIOT: Very well. That is all right. Thank you.

The CHAIRMAN: "Other research".

Carried.

"Condition of property".

Carried.

Mr. FULTON: I would like to ask Mr. Gordon a question with regard to steel and wooden passenger cars. I do not want to be unfair so I shall not say anything beyond the fact that there was a great deal of controversy and misunderstanding following the accident to which reference has already been made. But it does seem to be a fact that some of the coaches concerned were wood with steel under-frames. I base that statement on the findings of the board in their inquiry into the accident.

Mr. GORDON: The coaches on that ill-fated train all came under the ruling of the Board of Transport Commissioners and were regarded as steel coaches. Certain of them were, however, what we call steel sheeted coaches; but under the ruling of the Board of Transport Commissioners they constituted steel coaches and they were permissible under the Board of Transport Commissioners' rule.

The reason some of those coaches were thought of as wooden is that they were originally wooden coaches covered with a frame of steel. So technically we were within the provisions of the board's order.

Mr. FULTON: They were steel coaches?

Mr. GORDON: Yes, steel coaches.

Mr. FULTON: Are you yourself satisfied with this type of coach, or are you trying to eliminate this type?

Mr. GORDON: If we could eliminate them, we would be very glad indeed to do so. But again, it takes time to get coaches. You will find in our budget that there is provision for the purchase of a number of passenger coaches and as rapidly as we feel we can meet the demand of traffic, we plan to take the wooden coaches out of service.

We have 518 wooden coaches in our present position, and our general program in dealing with system requirements is that we hope to replace these coaches at the rate of 57 new steel coaches annually. That is our present program. But that again is contingent and dependent on the matter of supply.

Mr. FULTON: Do you know whether, following upon this inquiry, it is contemplated that any change will be made in the board's order with regard to the type of wooden coach with steel sheeting to which you referred—to have them taken out of use?

Mr. GORDON: I have no information about that. I do not think that the board suggested that there be a change. Do you know anything about it, Mr. Dingle?

Mr. DINGLE: It came to the attention of the board and consideration was given same. I can at this time put on the record what Mr. Fulton wants in regard to the result of the meeting in Ottawa and the recommendations.

The CHAIRMAN: Are they long?

Mr. DINGLE: No, they are fairly short.

Mr. GORDON: I am sorry to interrupt, but there is some confusion here. As I pointed out before, the Canadian National made certain recommendations. That is not what Mr. Fulton is after. He wants to know what the board decided, what the end result was.

Mr. FULTON: Yes.

Mr. GORDON: If you will leave it for the moment, we will work it out. I do not think it has been decided, really, and that is why I want to check it. Both railways made certain recommendations to the board.

Mr. FULTON: But reverting to the question of wooden coaches with steel construction, I take it that it is still permissible to include in a train a coach of that type, but not to place it between two steel coaches.

Mr. GORDON: It is permissible because of general order of the board No. 707, to include steel sheeted coaches.

Mr. DINGLE: A steel under-framed coach with steel sheeting.

Hon. Mr. CHEVRIER: The board's order included among other things that passenger trains shall be marshalled in such a way that no wooden coach carrying passengers is placed between cars of steel construction and that all wooden coaches are placed in the rear of the train; and also that coaches with steel under-frames shall not be deemed to be wooden cars or coaches within the meaning of the order. The board did not amend that order. And in its investigation into the Canoe River accident it went on to say that its technical officers are kept informed of the progress made in conversion to all-steel cars.

Mr. MACDONNELL: Are there any other questions with respect to the use of wooden coaches?

Hon. Mr. CHEVRIER: That is the last order made by the board and it was made following the accident just outside of Winnipeg, at Dugald.

Mr. POULIOT: I must express the appreciation of the people to you, to Mr. Dingle and the management for the considerable improvement in train equip-

ment which has been made between Montreal and Halifax. For many years it was awful. But now it is just as good as anywhere else and you must be given special appreciation for it.

Mr. GORDON: Thank you, Mr. Pouliot.

Mr. POULIOT: And to the Hon. Mr. Chevrier as well.

The CHAIRMAN: "Condition of property".

Carried.

Mr. MACDONNELL: Would Mr. Gordon care to say a word with respect to that paragraph and the words "reduced by at least 11 years"?

Mr. GORDON: That simply means that the equipment we refer to there is equipment which went through the war. Its service life was exhausted to that extent with the additional usage and pounding that it got through excessive use, so to speak, during the war years. Such excessive use reduced its ordinary service life to the extent, we think, of 11 years.

The CHAIRMAN: It was accelerated to that extent?

Mr. GORDON: Accelerated, yes.

Mr. JAMES: Is any research being done with regard to the use of materials other than steel for coaches?

Mr. GORDON: Yes. We are experimenting in connection with passenger coaches, but I believe that the all steel provision has become ingrained to the point where it would be very difficult to convince anybody that we could get out of it. But with regard to box cars, we are experimenting with composite materials, such as part wood and part aluminum, or part wood and part steel. It becomes a matter of determining how a composite car will stand up against stress and strain.

You may have seen that in the United States they have developed box cars made of laminated wood, plywood. But we are still skeptical about that particular item. However, we have information regarding it.

Mr. JAMES: What brought up the question was the plastic and fibreglass demonstration at the hotel. It showed amazing strength and I wondered if there would be any possible application here.

Mr. GORDON: I do not know. I cannot answer you specifically. But I can say that our research laboratory which, by the way, is a very good research laboratory, in Montreal, is constantly testing materials. They have not brought it to our attention as yet.

The CHAIRMAN: "Operating performance".

Mr. FRASER: This heading covers passenger service as well as other things.

I have here an editorial from the Peterboro *Examiner* dated Saturday, November 4, 1950. The gist of it is that on account of the service between Toronto and Peterborough and other points railways there do not get the traffic that they should get because the trains are run at about the same time. It gives a list as follows:

The second C.P.R. morning train to Toronto leaves at 7:10; the C.N.R. at 7:23. The C.P.R. 5:10 to Toronto is duplicated by the C.N.R. to Toronto via Lindsay, leaving at 5:30 p.m. The C.P.R. from Toronto going east for Ottawa and Montreal arrives a few minutes before noon; the C.N.R. from Toronto destined for Port Hope and a Montreal connection, arrives a few minutes after noon. The only C.P.R. Sunday train to Toronto leaves at 5:30 p.m.; the only C.N.R. to Toronto on Sunday leaves at 7:10. Thus the companies compound their lack of service by duplicating each other's.

That has been felt for years, because the trains leave practically at the same time going east or west.

Mr. GORDON: Yes, I am very conscious of that.

Mr. FRASER: Yes, and moreover Peterboro is a city now of roughly 37,000 yet we have the same facilities in the way of a station and everything else that we had fifty years ago. Of course, once in a while they put a little paint on it.

Mr. GORDON: This just raises the general question of schedules. It is a case of a layman looking at those schedules, or seeing the trains going back and forth about the same time, and it seems to him that it is foolish. But when you get down to examine the train schedule, you get into a very complicated matter and the basic thing is, as I said yesterday, that trains have to run at times which will give reasonable service to intermediate communities as between two main points.

It does not take very much thinking to realize that if one company finds that the appropriate time to service an intermediate point and make connections is roughly say 5:00 in the afternoon, it is not surprising that the other company will feel the same way, and you will find these schedules have got to fit into making connections as well as providing service to intermediate points.

Your general statement, I think, applies all over the country. But our present situation is simply that we are obliged to divert to other and more urgent things the materials you mentioned rather than into the construction of stations. And I can hold out no hope for our reaching the conclusion that we should recommend to this committee the erection of a great number of stations because there are other things which are very much more important under present conditions.

Mr. FRASER: I am not so anxious about the station as I am about the change in time. You mentioned the difficulties: but you leave here at 11.00 at night for Peterboro and you get there at 5.35 in the morning; then you leave there at 1.38 in the morning and you get here at 7.00 in the morning. I think those are terrible hours.

Mr. GORDON: I have a very intensive examination of our schedules under way because it is perfectly obvious from the standpoint of railway management that if we could get more traffic by having additional schedules, we would do so.

Mr. FRASER: I personally think you would.

Mr. GORDON: We would do so. We would not hesitate at all. It is simply a matter of practical operation of the railway and I can assure you that as soon as we can satisfy ourselves that we can get more traffic or more service, at a point where people will get more railway minded, we will do so.

Mr. FRASER: I know your city agent there is out after business all the time and so is your telegraph man.

The CHAIRMAN: "Hotels."

Mr. FULTON: The figures you give here are very interesting and they bring to mind a question which was discussed last year, and a question which was discussed frequently before. I would like to ask you whether in view of the amount of statistics which you now appear to have available as between certain parts of your freight operations and your passenger operations, whether you are getting to the point where you can give us a complete breakdown of your operating expenses occasioned by passenger service, and that part which is occasioned by freight service?

Mr. GORDON: I have not been able really to get anything worth while on that because you strike a fundamental difficulty in that it is very difficult for the statisticians to apportion the overhead that really should be applicable to passenger versus freight.

We can get out statistics as to the actual costs of running a passenger train. We know that. It is relatively simple. But when you begin really to make an

authentic analysis of it, you must ask yourself all sorts of questions. We have situations for example where there is an exchange of freight. And the question arises: would we have a Canadian National line where it was, if there were not an exchange of freight?

I would make a rough guess and say that if we were handling freight only to the point in question, we could do it more cheaply than we can do it if we did not have to cater to passenger traffic. The kind of station we would build, for example, would be different, but nevertheless we do build stations which handle passengers as well as freight, so it is really difficult to get a proper break-down. We are having an analysis made but I am not too hopeful of giving you an all white or an all black figure.

The Royal Commission dealt with this point and there is a short sentence here which I shall read from page 137 of the Report of the Royal Commission on Transportation as follows:

The freight and passenger services are essential and if the passenger fares cannot be raised to produce sufficient revenues to enable the passenger traffic to pay its own way the freight traffic must bear the burden. The two services are so interrelated that segregation is not practical.

That is their view after looking at the question. Personally I am still as interested as you are in the question and although I am pursuing it, I feel a bit frustrated about being able to give you an all white or an all black figure on conclusion.

Mr. FULTON: But you are making progress?

Mr. GORDON: Oh, yes. I understand it better than I did last year.

The CHAIRMAN: "Hotels."

Shall hotels carry?

Mr. MACDONNELL: Can Mr. Gordon say a word or two about the first paragraph at the top of page 19, particularly with regard to the special situation affecting the Hotel Vancouver and the Newfoundland hotel?

Mr. GORDON: I am sorry, but I did not hear your question.

Mr. MACDONNELL: Would Mr. Gordon say a word or two about the first paragraph on page 19?

Mr. GORDON: Well, along what line?

Mr. MACDONNELL: You speak about the general falling off in tourist and travel expenditures. I would like to hear you say a word or two about it. You say "excluding the Hotel Vancouver and the Newfoundland hotel".

Mr. GORDON: The Hotel Vancouver is excluded because it is a joint operation between ourselves and the C.P.R. The Hotel Vancouver is a separate company. And the reason why the Newfoundland hotel is excluded is that it was not operated for all of 1949 for one thing, and secondly, we are now engaged in a major remodelling of the hotel, and until that is completed we will not get statistics which are truly comparable.

Mr. POULIOT: Is it to your knowledge that the province of Ontario did anything to settle the sympathy strike at the Chateau Laurier during the Interprovincial Conference?

Mr. GORDON: It was not a sympathy strike. The unions representing the hotel workers were the same unions that represented the non-operating trades, and it was all part of the same organization in respect to the strike.

Mr. POULIOT: But did the Ontario government do anything to settle the strike at the hotel?

Mr. GORDON: I have no knowledge that they did.

Mr. MURCH: Is the management concerned with placing their hotels under provincial jurisdiction in the matter of labour matters? During the recent

strike you had a different situation in the Canadian Pacific than in the Canadian National hotels?

Mr. GORDON: Our hotel situation in respect of jurisdiction is in a very muddled condition. The Canadian Pacific have a ruling—I think it came from the Privy Council if I am not mistaken—which stated quite clearly that they were subject to provincial jurisdiction. But one of our problems in the hotel set-up in the Canadian National is that the status of each hotel varies as between provinces.

You would have to go into the detailed history of each hotel. In some cases they were owned by the government while in other cases they were owned by one of the component railway lines which we took over. I have the matter under very intensive examination to determine what is the best thing for us to do, all things considered.

It is a very complicated and very mixed-up legal situation and we are not in a position yet to come to any conclusion or clear choice over all as to what we want having regard to the background of each hotel.

Mr. MUTCH: Are you considering the possibility of going out of the hotel business?

Mr. GORDON: Going out of the hotel business? That may come as a result of our study, but I do not think I would be permitted—unless the government were prepared to support that particular view; I would say it is not under immediate consideration, no.

Mr. MUTCH: I am not urging it. I just wanted to know.

Mr. FRASER: The net operating income amounted to \$565,853, as compared with \$1,053,280 in 1949. It was my understanding that a year ago the Chateau alone showed a profit of about \$500,000. Is that right?

Mr. GORDON: We have the comparative figures here in the table.

Mr. FRASER: I wondered if they were still up.

Mr. GORDON: The figure in 1949 showed that the Chateau had in its operating account, a profit of \$415,209, yet in 1950 that same figure came down to \$269,000.

Mr. FRASER: \$269,000?

Mr. GORDON: Yes.

Mr. POULIOT: Was the loss suffered on account of the Chateau strike last year?

Mr. GORDON: I could not give you that detail. I gave an estimate yesterday of the cost of the strike for the system as a whole, but I have not got it broken down into component parts.

Mr. FRASER: You would know if there were some of these hotels that are not paying?

Mr. GORDON: It is a question of what you call "paying". I am talking about operating results, not of paying interest. With respect to 1950 the results from the hotels showed an operating profit, with the exception of the Charlotte-town Hotel and the Macdonald Hotel.

The Macdonald Hotel is not a fair comparison because we are charging up the amount of \$175,000 covering alterations due to the addition of a new wing; but that is a temporary matter and it will, in due course, provide profit in the years to come.

Mr. FRASER: How about the Newfoundland hotel in St. John's?

Mr. GORDON: That is not a proper comparison on general figures because it is under remodelling:

Mr. FRASER: And it needed it too.

Mr. GORDON: There is no doubt about that. If you should ask me for the figure of the cost of remodelling, I could tell you.

Mr. FRASER: Yes, I would like that. You asked for it.

Mr. GORDON: As nearly as we can estimate at the moment, it will cost us about \$1½ million to put the Newfoundland hotel in shape. But in doing that, I think it is a good investment. We shall so remodel the hotel that we shall get the rooms on a basis which will pay for the costs, and I hope that when we get through with it, the Newfoundland hotel will return us some profit on our operations.

Mr. FRASER: I imagine that it will.

The CHAIRMAN: "Communications."

Mr. MACDONNELL: With respect to the profits on operations, did I understand you to say that that was pure operating profit without charging yourself anything for your investment?

Mr. GORDON: That is correct. This is merely operating revenue less operating expenses.

Mr. MACDONNELL: Well, for your own satisfaction, have you figures which show you what the result of your work is, when you charge for your investment?

Mr. GORDON: It is a very simple figure. It is merely a matter of taking the interest rate on whatever the property investment is.

Mr. MACDONNELL: I realize that. I can work it out for myself. But I wondered whether, for your own satisfaction, and for the setting of rates and such, you personally have the over-all figure?

Mr. GORDON: Oh yes, yes indeed.

The CHAIRMAN: "Communications."

Mr. FRASER: This covers teletype rentals, does it not?

Mr. GORDON: It covers all forms, such as telegraphs, and teletype in connection with communications, and telephones too.

Mr. CARTER: Last year I put before this committee the need for extension of communications, telegraphs and telephones to smaller settlements in Newfoundland and I wonder if Mr. Gordon can tell us whether anything has been done to extend that service to those smaller settlements, and what the policy is for the future?

Mr. GORDON: Well, we have taken very definite action in that respect. You are thinking of a basis for servicing new communities?

Mr. CARTER: I am thinking of new communities and of communities which formerly had telephone and telegraph communication, but which lost those services when we lost responsible government. A good many of those settlements have grown since then and it is a question of the restoration of those services which were enjoyed 15 or 20 years ago.

Mr. GORDON: We looked into that question very carefully. It is a matter of judgment as to the justification for extending services in very small and isolated communities. It is a very costly thing to try to do, to cover that type of community. So we decided the matter as managerial policy and we adopted a formula to apply in the future with respect to communication facilities.

The formula is that where a community consists of a population of at least 50 people, and where the existing communication is 3 miles or more away, we treat it as a matter of public convenience and necessity, rather than one of essential commercial economy.

Mr. CARTER: That is right.

Mr. GORDON: We have experienced judgment along that line and we are prepared to make installations which are not justified on economic grounds but rather on the basis of public convenience and necessity. That is our rough formula.

Mr. CARTER: Have you put that policy into effect in any community in Newfoundland?

Mr. GORDON: Yes. We started in on it about 4 or 5 months ago, I would say.

Mr. CARTER: Could you let me have the names of some of the communities, not necessarily right now, but later on, say tomorrow?

Mr. GORDON: I would be glad to do that. And you will have a list of our projected communities. But we are up against the difficulty of getting materials and supplies, because in that particular field of equipment, defence requirements are very heavy.

Mr. CARTER: You have mentioned public necessity and convenience. I would like to point out that during the last war these little communities played a very vital role in our defence efforts. A large number of airmen owe their lives to the existence of these tiny offices in out-of-the-way places, and I think that in the extension of those offices in the future we should also bear in mind the part they will play in our defence program.

Mr. GORDON: Yes. These considerations have certainly been kept before us, Mr. Carter; and I think when you see our program you will appreciate that it has all been considered.

Mr. KNIGHT: Could Mr. Gordon tell us to what extent the railroad owns its own telegraph or telephone systems, or leased telephone systems?

Mr. GORDON: We have a very extensive telephone system. I do not know just how to describe. It is a necessary part of our communications all along our line. I do not know how far you want me to go. It would take quite an analysis to tell you what we own.

Mr. KNIGHT: If the chairman would excuse me for not putting this in the form of a question, I would like to pay a very strong compliment to the public relations people of the Canadian National in connection with an experience of my own recently. I missed my connection in going to Windsor on a matter of business, and the public relations man was good enough to carry out my business problem for me. He was able to do that because I had told him what it was. And when I offered to pay him for it, he said: "No. We have our own telephone system." So may I pay a compliment to the particular individual and to the company for taking that tremendous interest in my private business. I might add that I missed my appointment because the Canadian National train was on hour late.

Mr. GORDON: That is merely an exemplification of the company's slogan "courtesy and service".

Mr. MUTCH: One of the basic employee difficulties, in employee relations at the present time, I believe, is that dealing with basic pensions. I thought that this might be the opportunity to say what I have to say on that subject.

Mr. KNIGHT: On a point of order, Mr. Chairman, I thought that we had decided yesterday that we were to deal with the matter of basic pensions on the main statement at the beginning, and I think you put my name down for that particular purpose.

The CHAIRMAN: We decided yesterday that, when dealing with the third paragraph on page 2 of the forwarding letter to the minister, we would deal with employee organization.

Mr. MUTCH: I was here at the time and my recollection does not confirm that of the chair. But I asked for your ruling so that the matter can be dealt with under the proper item of the report. I understood there was to be a general discussion on the letter of transmittal. I am a little at a loss to know whether or not the questions which I propose to ask will come under the heading of general discussion. However, I am not anxious to stress the point. It is a matter of extreme indifference when I ask those questions, be it now or later.

Mr. FULTON: I do not think the matter was ruled upon except to defer the questions which Mr. Knight wanted to ask until we reached paragraph 3 on page 5.

The CHAIRMAN: I take it that Mr. Mutch is quite willing that it should be done, as long as he has the right to ask his questions. That is my understanding.

Mr. MUTCH: We discussed this question.

The CHAIRMAN: I understand that you will be allowed in when we come to the 3rd paragraph of the letter. You are quite content?

Mr. GILLIS: Before you leave employee relations, I would like to ask why the non-operating employees were not included in the general agreement and given some consideration by way of wage adjustment as the operating employees were. I know that Mr. Kellock did not recommend that should be so, but there must have been some background of negotiations between management and employees before Mr. Kellock when he arrived at that decision. I think that the dissection, dealing out those employees, makes for bad labour relations. I think it isolated them. Was there any particular reason why that should be done?

The CHAIRMAN: Would you mind reserving that question for the general discussion upon employee relations which is going to take place later on?

Mr. GILLIS: There is to be a general discussion coming up on that?

The CHAIRMAN: Do you mind doing that, to facilitate the work?

"Participation in economic development." Shall the item carry?

Mr. FULTON: I would like to ask a question about oil. I understand that the National Research Council is experimenting with heavier oil, car axle and bearing lubricants. I believe that they will reduce bearing wear and cut down the number of hot boxes and thereby reduce the locomotive power required to pull a train.

Has the Canadian National tried it out? Have you been participating in the development?

Mr. GORDON: We ourselves carry on continuous experiments in the matter of oils through the Research laboratory to which I have already referred, and not only in respect to lubricating oil but diesel oils as well. And we keep closely in touch with such laboratory work as is being done throughout the country. We have already adopted a number of successful changes and they have shown good results, particularly in respect to diesel oil.

And in regard to lubricating oil we make changes from time to time as a result of research work. That is, generally speaking, the situation we are in.

Mr. FULTON: You do not know of any particular field in which they are experimenting with heavier lubricating oils?

Mr. GORDON: I do not know. I have not seen this dispatch you refer to, so I am not familiar with it. But in connection with diesel oil, when we first started our experiments, the feeling was that diesel oil had to be changed at a certain mileage. But we have found that the oil changing specifications were very much exaggerated, and we were able to make oil changes which brought about a marked savings in operating costs. Now, with respect to lubricating oil, have you anything specific in mind, Mr. Dingle?

Mr. DINGLE: No.

Mr. GORDON: Mr. Dingle confirms the fact however that we do change our lubricating oil from time to time in conforming to laboratory experiment. Most research bodies keep in touch with what is going on, and they exchange information. It is regarded as almost traditional.

The CHAIRMAN: Are there any further questions?

Mr. FRASER: In the 2nd paragraph, in the second last line, I read:

"It is estimated that over 60 per cent of industrial capital is invested on plant sites served by Canadian National lines."

What would these lines be? Would they be lines duplicated by the Canadian Pacific or how would they get in?

MR. GORDON: It would cover any line that we serve, generally speaking, when we traditionally serve a plant. Both railways try as far as possible to get the service of a specific plant by means of a spur line or otherwise. It would give us an advantage in getting the traffic and in a lot of cases it would make the railway company the only access to the plant. However there are a lot of cases where we jointly service a plant.

MR. FRASER: And the Canadian Pacific could make the same kind of settlement as this?

MR. GORDON: I do not think their percentage would be that large.

MR. FRASER: But in a great number of cases both lines could serve a plant?

MR. GORDON: No, no. There is a great number of cases where only our line goes through a particular territory.

MR. FRASER: I see what you mean.

THE CHAIRMAN: Are there any further questions? The item is carried.

MR. MUTCH: Is it the practice in cases where industrial plants secure property on your trackage for your company to endeavour to tie up your railway business as conditional to the sale of the property?

MR. GORDON: That is very often a part of the agreement. It applies on both railways, of course.

THE CHAIRMAN: Will you now turn to page 1 of the forwarding letter, and to paragraph 3 thereof.

MR. FRASER: Are you not going into finances?

THE CHAIRMAN: I thought that the Royal Commission would come in under the letter.

MR. MACDONNELL: Have you got to the end of page 21? Have we covered immigration?

THE CHAIRMAN: We have simply been calling one general heading.

MR. MACDONNELL: I would like to ask something on that subject.

THE CHAIRMAN: Very well.

MR. MACDONNELL: Would Mr. Gordon say something about the organization of the railway, I mean the European organization of the railway in connection with immigration; and in doing so would he explain how it fits in with our two other organizations, I mean the Canadian Pacific organization and the organization of the government department itself. I understand there are three set ups, and that our immigration activity is divided into three efforts.

MR. GORDON: We have a small organization in Europe and if you will turn to page 48 of the report you will see a list of our European offices there. We have a small organization in Europe which is supervised generally from London.

These men we have there try to get in touch with steamship companies, and they have personal contact and so forth and they keep in touch with the people who are intending—or who can be persuaded that it would be a good idea for them to immigrate to Canada. We then provide service for them in explaining Canadian conditions and giving them particulars of land that might be available if they are interested in farming as an occupation and so forth.

We have a whole series of things that we can tell them about Canada such as soil conditions and so forth.

Now, in respect to co-ordination with the Department of Immigration, we have a very close working relationship with them and we are constantly in consultation with them. They tell us the sort of information that they have received and we do our utmost to welcome these new citizens. We meet them at the station and take them off the boat and generally do as much as we can

to make them feel at home as they arrive. It is a service for which we have received many compliments.

Mr. MACDONNELL: Could you tell us more in that respect? You say you keep in touch with intending immigrants in Europe. I take it that includes both the United Kingdom and the continent?

Mr. GORDON: Quite so.

Mr. MACDONNELL: Does the government authority take charge of the tourist, or do you take charge of him yourself?

Mr. GORDON: If we sell him his passage, we take charge of him. We help him with governmental regulations and we help him by explaining to him about foreign exchange regulations and about the medical examination, and all the varied kinds of red tape, which is very obvious these days having regard to anybody leaving any country. Then, of course, there are matters which are taken up with federal government. There are some things which the department of immigration themselves do to help in specific instances, and we call it to their attention in specific cases.

They do some work themselves of an initiating character and it might finally fall into our hands or into the hands of the Canadian Pacific when the matter of transportation is arranged.

Mr. MACDONNELL: You spoke in a general way about looking after their welfare when they came to Canada, and that certain obvious questions arose. Perhaps you could give us more specific information. For example, to what extent, when a man comes to Canada, to what extent does he come to take up an arranged job? And in addition to that particular question, who would assume the responsibility for his immediate housing? As we all know, I have heard of some very difficult cases.

Mr. GORDON: We try as far as we can when we check on families or persons coming to Canada over our facilities, to have it understood. For example, where an individual is coming out to work as a farmer, we try to present to him a list of places where he may locate, and we try to show him desirable property and we get pictures of such property. We inform him about the land and the sort of croppings that would be suitable for it. As far as possible we like to have these people arrive in Canada with a definite place to go and with at least an initial idea of what they are going to do.

Mr. MACDONNELL: Take the question of a farmer. Can you give us a little information as to what the money requirements are now in the United Kingdom, how much money he can bring out with him, and what you expect to have in that respect?

Mr. GORDON: I am afraid that my memory fails me on the details. I think it is still quite a limited sum, and that is part of the difficulty, in respect to money.

Mr. MACDONNELL: Are you having considerable success with bringing farmers out?

Mr. GORDON: We have some success but not as much as we would like to see.

Mr. MACDONNELL: Could you give us a rough figure?

Mr. GORDON: You will notice from the report that during the year nearly 2,500 families were located, and these were families settled in farming areas.

Mr. MACDONNELL: Was that across Canada or just in a certain area?

Mr. GORDON: Oh, that would be across Canada.

Mr. MACDONNELL: Do you have regard to the question of abandoned farms? I mean, do you scrutinize areas from that point of view, or are you interested only in getting people to come to places which they can buy, which are in full running order?

Mr. GORDON: We have to be careful not to over-sell a man. We produce a brochure for him and give him examples of various kinds of farms which are

available. They may be abandoned farms or new land, but we try to get him to come and settle near the main tracks of the Canadian National. And we very often get actual figures of the type of farm buildings he would expect to meet with in this country.

Mr. MACDONNELL: Can you be a little more specific as to just how much responsibility you assume for his immediate accommodation when he arrives in Canada?

Mr. GORDON: We do not accept any definite responsibility, but we do try to have somebody meet him when he arrives in Canada, and whatever his terminus may be, we try to see that there is somebody to meet him and take him to the place which he may have selected.

Mr. MACDONNELL: We hope it is as good a man as the one who met Mr. Knight.

The CHAIRMAN: Carried.

Mr. MOTT: Might I ask if you have brought many DP's out to work on the railroad?

Mr. GORDON: I do not know if our employee statistics would show that.

Mr. MOTT: Are there many DP's working on the railway?

Mr. GORDON: We do not endeavour to keep a statistical record of that. We do know that there have been quite a number of DP's come to us for track work, but I cannot tell you specifically what that would be in point of number because we do not keep a record of it.

Mr. MOTT: I understood that you had a considerable number of DP's as section hands on the railway and I wondered just what was done for them, whether you regarded them as new Canadians or whether there was any thought along that line?

Mr. GORDON: I think that is part of the same generalization I gave to Mr. Macdonnell, that when these people get here we try to get them to feel at home. Usually section gangs are in charge of a foreman and it is his job to see that his men are in the proper frame of mind. And if there was a DP in a section gang who was having any difficulty, I am sure that our foreman would do what he could to help him.

Mr. POULIOT: At page 48 there are listed your European offices. Would they give the same sort of information to the immigrant?

Mr. GORDON: Are you talking about the list of offices recorded there in Europe?

Mr. POULIOT: Yes.

Mr. GORDON: Yes. Information is available through those offices for any people who wish to immigrate to Canada or who have immigration to Canada in mind.

Mr. POULIOT: I take it then that there are places besides London where that is done. I note, for example, Antwerp in Belgium and Paris in France.

Mr. GORDON: Yes.

Mr. POULIOT: I wonder if your staff speaks French as well as English in order to inform people who come to the Canadian National offices?

Mr. GORDON: Oh yes. We would not send somebody to Europe who could not at least speak the language of the people he is to talk to.

Mr. POULIOT: Be it Antwerp in Belgium or Paris?

Mr. GORDON: That is right.

Mr. MACDONNELL: I wonder if Mr. Gordon could say something as to the results to date? I am thinking of the people who have been brought out to work,

or would he say that it is too soon to assess them. They have been coming out steadily. I suppose the company has kept records from which Mr. Gordon could tell us in a general way how these new farming immigrants are getting along?

Mr. GORDON: Yes. I could have that brought out from the report that my department of colonization and agriculture prepares for me. It is a report covering the sort of thing you are asking about. Our staff keeps in touch with them and my impression is that the people who come here via the Canadian National Railways take root very well and that their general development is good.

Mr. MACDONNELL: Could we get this further report from Mr. Gordon at a later meeting? I think it is a matter of interest as well as of importance.

Mr. GORDON: I shall get a report of some kind that will try to give you a general picture.

Mr. POULIOT: Who is the head of your colonization and agriculture department?

Mr. GORDON: Mr. McGowan, who is located in Montreal. He has been on this work for quite a long time, and he is well and favourably known to all the governmental departments as well as to other interested parties.

The CHAIRMAN: Carried. Now, if the committee will turn to the forwarding letter on page 1, you will recall that we agreed, I believe, yesterday that under the third paragraph a discussion would take place concerning the capital structure of the Canadian National.

Mr. FRASER: Page 4 is it not?

The CHAIRMAN: Page 4. The first page of the letter. It is now five minutes to one, and we perhaps should adjourn until 4.00 o'clock but before we adjourn Mr. Gordon has asked if the members of the committee would now indicate in a general sort of way any questions they wish to ask this afternoon with regard to the capital structure of the Canadian National, so that during the lunch hour he would have an opportunity of getting ready to answer the questions. Mr. Gillis, I believe you were one of them?

Mr. GILLIS: I was wondering how far Mr. Gordon could go. He made very strong representations to the Royal Commission on Transportation on the subject of the revision of the whole capital structure. Now, the Report of the Royal Commission is in the hands of the Board of Transport Commissioners, is it not?

Mr. GORDON: No. It is in the hands of the government.

Mr. GILLIS: Well then, it will be all right to discuss it. So I would like Mr. Gordon to indicate to us this afternoon to what extent he expects his ideas as presented to the Royal Commission on Transportation to be implemented?

Hon. Mr. CHEVRIER: He cannot answer that.

Mr. GORDON: I cannot answer that question. In fact, I would be very interested in having the answer to it myself.

Mr. GILLIS: Then perhaps the minister might inform us about it this afternoon.

Hon. Mr. CHEVRIER: I have already indicated what the answer is. I have said that the government has not had an opportunity to study the recommendations of the Royal Commission on Transportation in so far as capital structure is concerned. It has given some study to the first part of the report. It will be my responsibility to prepare a draft bill, and then after that is done, I propose to place it before my colleagues for consideration. But until that is done, I do not think that the government is in a position to review the recommendations of the Royal Commission with respect to recapitalization.

Mr. MACDONNELL: We have in the Turgeon report a very interesting review of the whole situation. They have set out Mr. Gordon's recommendations

with respect to a revision of the capital structure, and they proceed with a long and reasoned argument to discuss the matter. At the same time, that is something which is available. I do not know how you could decide that it could come before this committee but it seems to me that we would be having a play without Hamlet if we do not have regard to these very detailed and carefully reasoned comments on the whole capital structure situation.

Hon. Mr. CHEVRIER: The committee is free to discuss it as much as it likes but I certainly am not free to make any statement on whether or not it will be accepted. I want to make that clear because I do not think it would be fair to my colleagues or to this committee since we simply have not given the matter any consideration.

Mr. FULTON: Would it be fair to ask Mr. Gordon to make some comment for us on the result of the implementation, or the results which would follow if the Royal Commission's recommendations were implemented, and how far this would assist the Canadian National, and in what respects they would fall short of his recommendation, and what would be the net disadvantage which would accrue to the Canadian National as a result of the differences between the two recommendations?

The CHAIRMAN: It would seem that you are going to have quite a nasty lunch hour, Mr. Gordon. Now, in regard to our meeting tomorrow morning. It will be Wednesday and some parties have a caucus on Wednesday. So I would like to know the feeling of the committee on whether we should sit tonight or sit tomorrow morning besides this afternoon. We have with us Mr. Gordon and his large staff of very important officials and we should not keep them here any longer than is necessary. On the other hand, we should not hurry our inquiry. So I think we should either sit tonight at 8.00 o'clock or tomorrow morning, but it is for the committee to decide.

Mr. FRASER: I move that we sit tonight, Mr. Chairman.

The CHAIRMAN: Mr. Fraser moves that we sit tonight. All those in favour? Those opposed? I declare the motion carried. We shall sit tonight at 8.00.

AFTERNOON MEETING

The CHAIRMAN: Order gentlemen, we have a quorum.

Mr. MACDONALD: Before we go on to recapitalization, may I have your permission to go back and ask another question about coal, if I may, please?

The CHAIRMAN: It is a very dangerous precedent.

Mr. MACDONALD: Well, Mr. Chairman, it is my information that C.N.R. purchasing policy with regard to Alberta coal has been on a month to month basis, whereas the Canadian Pacific Railway has a purchasing policy for Alberta coal such that C.P.R. orders have already been placed for a year ahead. I am informed that the Canadian Pacific Railway has placed orders for the period April 1, 1951 to March 31, 1952 for 2,340,000 net tons. Now, to have the mines maintained in the national interest is it not reasonable to ask the C.N.R. to give longer term contracts with the coal mines of Alberta.

The CHAIRMAN: I understood Mr. Gordon already to have said that he was quite prepared to enter into long term arrangements but that by and large, up to the present time, the Canadian National Railway was simply taking what was left after they had not been able to sell to anybody else.

Mr. MACDONALD: I accepted Mr. Gordon's explanation this morning, but I made further inquiries and I find that these miners can produce more but that they have been going on a policy of a month to month basis.

Mr. GORDON: Let me settle it this way. If those people want to come to the Canadian National Railway and talk about making contracts for coal we will be glad to talk to them.

Mr. MACDONALD: Fine, I am not talking about any particular company.

Mr. GORDON: Certainly up until this year we have never been able, with the Alberta coal miners, to establish anything on purchases except for what they had left over after they had sold elsewhere. If they want to talk contracts on an annual basis we will be very glad to talk to them.

Mr. GILLIS: Coal operators, not miners?

Mr. GORDON: I stand corrected and I yield to your superior knowledge.

Mr. GILLIS: Miners do not sell coal; they just dig it.

The CHAIRMAN: Have you an answer for Mr. Carter?

Mr. GORDON: I have an answer on the matter to which Mr. Carter referred. Out of 48 applications received for service 15 have been gone ahead with, 21 are in the process of being approved, and 12 are under study. That takes care of the situation before us immediately.

Mr. CARTER: I would like the names if I may have them?

Mr. GORDON: I have not the names available and I hoped that you would not ask that question because I would rather not give them. It puts us in an invidious position as between communities. They say: "Well, you have approved of so and so; why can't you get on with us?" We are just doing the best we can. If it is permissible, I have no objection to giving it to Mr. Carter personally, but I would not like it to get into a matter of press discussion.

The CHAIRMAN: I would think that Mr. Carter would be desirous of helping the C.N.R.—

Mr. CARTER: Well, I would like it for my own information. I have made requests myself for some of this and I would like to know which ones are being proceeded with.

Mr. GORDON: I will let you have it, but I would not like it to get into a matter of general discussion.

The CHAIRMAN: Shall we deal with paragraph 3 on page 4 of the forwarding letter?

Mr. FRASER: Before you get on to paragraph 3 we will be able to discuss almost anything on this letter, will we not?

Hon. Mr. CHEVRIER: Anything that is in the letter?

The CHAIRMAN: Our understanding was that we would discuss subjects which we had not already covered as we went through the narrative. You will recall that on several occasions it was indicated that these subjects had better be discussed under the letter or under a budget item. I hope it is not the wish of the committee that we should go over all of the ground again.

Mr. FRASER: I never asked for that but I just wondered if you were going through the statement in regard to the assets and one thing and another, afterwards?

The CHAIRMAN: We will be dealing with the Auditor's report and you have always been very reasonable, Mr. Fraser. I do not think you will have any difficulty in your questions.

Mr. KNIGHT: Can we relate our discussion to each paragraph?

The CHAIRMAN: I think it would be preferable. I shall call 'capital structure', paragraph 3 of the letter.

Mr. GILLIS: According to the minister's explanation this morning, Mr. Chairman, there is not very much you can do about this except hope that the representations made by Mr. Gordon to the commission that inquired into the whole thing will receive some attention by the government. I have always felt the crux of the whole C.N.R. problem is that load of unnatural debt that it

carries. Unless they get clear of that and get it straightened out in some way I do not think there is much chance for anyone, regardless of his abilities for management, to handle that C.N.R. problem. You just cannot keep on dumping additional freight rates on the public year after year and expect to compete with the Canadian Pacific and trucking and all the rest of it.

Mr. Gordon has made a gallant effort; I want to compliment him. His report shows there certainly has been something happening to the whole system. He has reduced the debt considerably, but I think they are in an impossible situation unless the government is prepared to relieve the C.N.R. of the debt it never should have had: these bonds; this interest on defunct railways that should have gone into bankruptcy—they should have been written off instead of being taken over and the interest charged to the C.N.R. at 100 per cent on the dollar. I do not see any point in discussing it here. The government has considered it. The commission has made some pretty decent recommendations on it and all we can do is hope. The minister cannot state government policy, but I would urge the committee to pay some attention and get in behind management and urge the government to relieve the company of that particular tangle there. Unless that is settled I think the C.N.R. is in an impossible position.

Hon. Mr. CHEVRIER: I would like to assure Mr. Gillis that the government has given this recapitalization of the C.N.R. very careful consideration ever since I have been in the department. At least once if not more in each year since 1945 the question has been up for discussion and I think the government welcomed the opportunity of including in the terms of reference of the royal commission a request to review the capital structure of the C.N.R. I agree with you that the report is a very exhaustive and complete one in so far as that part is concerned. I believe it will be understandable to the committee that the government in the short time available has not had an opportunity of studying it carefully. After all, the report was only handed down a little more than a month and I think we have done pretty well in approving, in effect at least,—and I am quite sure in its entirety,—the first part of the report,—that having to do with the equalization of freight rates. We have felt all along that until that is out of the way we should not make a decision on the question of recapitalization.

I can assure you and the committee that I am very happy about the recommendations made by the royal commission. Beyond that I am afraid I cannot go.

Mr. MACDONNELL: Mr. Chairman, I thought possibly Mr. Gordon would be saying something as to his recommendations. Actually I am not clear as to the full details although I infer what it was from reading the recommendations of the commission itself. Would it be in order for me to refer to two or three things particularly in the recommendation? I do this because Mr. Gillis has made a statement which really simplifies things a little too much and leaves an impression which I do not think is the impression that a full reading of the commission's recommendations would leave.

The CHAIRMAN: I would think, Mr. Macdonnell, it would be right that a reasonable amount of discussion of opinion of the committee members would be admissible at this time and I think Mr. Gordon should be free to answer any questions by way of explanation of the recommendations which he made and the recommendations which have been made by the commission; but I do not think it would be fair or proper that he should express any personal opinions. I think any questions directed to him should be rather in the nature of clarifying anything that is in doubt.

Mr. MACDONNELL: May I draw briefly to the attention of the committee some things which seem to be in this reference and I begin with recommendation number 2 on page 196 because I rather imagine it is the vital recommendation and deals with the most vital recommendation which Mr. Gordon made. It is quite brief:

That Government loans totalling \$743,661,000 at 31st December, 1949, be converted into three per cent income debentures on which interest would only be paid if earned and would not be cumulative.

There are other recommendations which I will not go into but I read that one as the vital one because we all realize the problem which bothers Mr. Gordon, and bothers the system, is the load of debt which the system is carrying.

I would like to read just two or three comments which the commission makes and which I think are relevant to this recommendation which they finally arrived at. I begin reading at the bottom of page 192.

The CHAIRMAN: I wonder if it would be wise to put on the record paragraph K—that is the actual recommendations that appear at page 196. They are not long. Is that agreed?

Agreed.

3. That the shares of the Canadian National Railways Securities Trust now held by the Government be turned over to the Canadian National Railways in exchange for an equal number of shares of the latter company. This would serve to simplify the capital structure of the system, but would not change its total capital or the Government's equity therein.

4. That after payment in the first place of the interest charges on debts due to the public, the Canadian National Railways be allowed to accumulate out of earnings in each year a reserve or "something to come and go on", such reserve to be not more than the lesser of:

- (a) one-third of the income after providing for all charges and deductions from income except interest on the Company's obligations, or
- (b) the balance of the income after payment of interest on debts due the public.

5. That after payment of the interest on the debts due to the public and the setting aside of the reserve or "something to come and go on" referred to in (4) above, an amount equal to three per cent of the then outstanding Government loans, or the balance of the earnings, whichever is the lesser, be paid to the Government.

6. That to the extent that reserves as defined in paragraph 4 above and surpluses have been accumulated, losses, if and when realized, should be charged against such reserves and surpluses. If no such reserves or surpluses are available against which to charge the losses, such losses be reimbursed to the Company by the Government.

7. That any capital required to finance the company, in addition to funds provided from operations and payments made under the provisions of paragraph 6 above, be obtained from the sale of bonds to the public and income debentures to the Government.

8. That surplus earnings, if any, after the payment of interest on debts to the public, the provision for reserves or "something to come and go on" outlined in 4 above, and the payment of interest on Government loans, be dealt with at the discretion of the directors.

Mr. MACDONNELL: The bits I wish to read have reference to the difficulty and it is a very general difficulty which is raised as between the comparison of charges carried by the National companies and other large railway companies. Let me say in advance that I do fully accept the proposition put forward by the railway officials, that psychology enters into this and people should not be asked to carry loads which are too grievous to be borne.

Let me read very briefly extracts from what the report says and which seem to me to be relevant and worthy of careful consideration. On page 193 under "conclusions", the second paragraph:

It would seem that comparisons of the fixed charges on one railway with those of another and of the percentage of fixed charges to revenues do not establish a case either for or against the comparability of total financial charges. It is doubtful whether a useful comparison can be made without taking into account all the financial charges including taxes on income and dividends on stock which a company is required to earn if its credit is to be maintained.

While there is no doubt that in bad times when earnings are low it is advantageous for a private company not to have heavy bond interest payments to meet, nevertheless it is also true that smaller earnings are required to service bonds than an equivalent amount of common stock. For example, it requires earnings of only three and a half million to pay bond interest on a hundred million issue with a coupon rate of $3\frac{1}{2}$ per cent. A common stock issue of a similar amount would probably require a dividend rate of 5 per cent. In order to have five million dollars available to pay dividends, gross earnings in excess of eight millions are required to provide for the income tax liability and leave an amount sufficient to pay the dividend.

Again he refers to the high fixed charges, and he says:

The disadvantages of the high fixed charges of the Canadian National Railways are largely, if not entirely, of a psychological nature and do not in fact result in any financial embarrassment to the Company or affect its credit, as deficits are paid by the Government.

And further, down here about the middle of the page and the middle of that paragraph:

In other words, it should be recognized that, in addition to fixed charges, a private company must, over a period of time, have sufficient earnings to pay reasonable dividends to its shareholders and set aside reserves for a rainy day. Before dividends can be paid and reserves set aside, approximately 45 per cent of all earnings must be paid as income tax under present tax rates.

The evidence submitted does not establish comparability with other railways; the Canadian National Railways' witnesses and counsel have admitted that complete comparability cannot be achieved. Any privately owned railroad would go into bankruptcy under comparable circumstances, and its reorganization plans would not be affected by considerations of public policy which must play a part in a public utility owned and operated by the Government.

I have read these excerpts, Mr. Chairman, because they seem to me to bear directly on the question raised; first of all, we will accept the psychological argument; and, secondly, that they do point out the very substantial differences which exist between the National Railway, which pays no taxes, and a company which has to pay taxes; and also a company which has to depend on being able to sell equity shares to the public at 5 per cent and on the other hand a company whose deficits are met out of public funds.

The CHAIRMAN: Are there any further comments?

Mr. FULTON: Mr. Chairman, I would like to put a general question to Mr. Gordon. I have been thinking it over during the adjournment, and I am not sure that it is a fair question to ask him. What I would like to know is this, if Mr. Gordon would indicate to us his assessment of the results of the C.N.R. on the basis of the proposals concerned in the report of the royal commission?

Mr. GORDON: Yes, I think I can give you something on that. Perhaps before doing so I should say that I should like to make two comments as a sort of background. The first is with reference to the extract which Mr.

Macdonnell read, and in that connection I would like also to place on the record page 195, where it reads:

The Canadian National Railways has established a case for reduction of its fixed charges and for the desirability of the Company being able to accumulate out of earnings a reserve or "something to come and go on."

I am just pointing out that the commission did find that we had established a case. In my presentation to the commission I made certain recommendations, and as I see it the commission has made certain recommendations. I think it is difficult to take these two recommendations and try to compare them, to set them out as putting the one against the other. Each proposal must be taken as a package in order to come to a sound appreciation of what they really mean. Therefore I think I should offer some word of explanation.

I have prepared a statement here in which I have taken the commission's recommendations and I have applied them to the results of our 1950 operations on the basis of a reconstructive year; that is, I have taken 1950 and have reconstructed our operations assuming that the various freight increases were in effect throughout the whole of the year which were in effect at the end of the year, and all the other costs, as if all the other costs in the way of increases, wages and so on had been in effect all during that year. I want to say a word of caution as to the results which may be expected if the relief which is recommended by the commission is applied. This is purely in the interests of explanation and not intended as a criticism. It is simply to get the figures before the committee as to what they really mean. On page 197 of the report there are examples furnished illustrating the effect of the recommendations of the committee at various levels of earnings, and these earnings range all the way from \$25 million to \$75 million. This latter figure or anything approaching it is I am quite sure outside of the realm of the probable in the light of conditions facing us today. So, if we take the table based on a recommended relief of about \$25·8 million, and if you applied that to the deficit for 1950, you will be left with the impression that by taking that deficit off we would actually be left in 1950 with a surplus of \$22·5 million. Now, some further examination is desirable if a correct appraisal is to be made. Last year we had a wage increase of seven cents an hour, which went into effect on August 31; and, naturally, it did not cover the full impact of the rise in prices for materials which was in evidence at the end of the year. In addition to that, our operating expenses had been reduced by the transfer from the deferred maintenance reserve of \$9 million, and that is the end of the deferred maintenance reserve. We estimate that in the year if our operation was recast so as to reflect for the whole of the year the freight rates, wage rates, material prices, etcetera, as they existed at the end of the year, and when the credit from the credit from the maintenance reserve is excluded—that is a non-recurring item—and if that relief of \$25·8 million is applied then we should have finished up with a surplus of only \$2·5 million, after the payment of interest on public held debt. That is what the picture looks like to a realist. Since the first of this year additional wage increases have been given the running trades; and then, of course, we will have to meet the impact of the 40-hour contract clause generally. I am not saying this as a pessimist. I am merely trying to show the application of the commission's recommendation at that level of operation. This statement which has been prepared against the background which I have described to you brings out here on a reconstructed basis the fact that if the recommendations of the commission had been implemented and were made applicable to the year 1950, with the qualifications I have made we would have had a surplus available to transfer to reserve of only \$2·5 million; which shows us that for the year under review the relief afforded on that basis would not appear to be extravagant.

MR. FULTON: In the course of your explanation, as I recalled it, you had based your reconstructed year on paying the wage rate that was in effect at the end of the year, paying it for the whole of the year?

Mr. GORDON: Yes.

Mr. FULTON: Did you prepare the figures in your estimate on the basis that you will be granted an increase in freight rates on the application which you now have before the Board of Transport Commissioners but which has not yet been decided?

Mr. GORDON: No. I said in my statement that we have not included the wage increases that have been given in 1951; that is for the running trades, or whatever might be coming to us further out of the 5 per cent, or the 40-hour week. We have not estimated anything for the future. I am just taking what we included as existing in 1950, but making a whole year out of it instead of just part of year. If we were to take this \$2.5 million, and supposing we knew our result for 1951 exactly, that \$2.5 million would come down and we would probably show a deficit, arising out of the impact possibly of the 40-hour week; unless we receive freight rate increases to offset them. Have I made that clear?

Mr. FULTON: Yes, thank you.

The CHAIRMAN: Are there any further questions on this point?

Mr. GORDON: Mr. Chairman, would you care me to table this statement and have it put on the record.

The CHAIRMAN: Yes. It will be added in the record at this point.

RECONSTRUCTED RESULTS OF OPERATION YEAR 1950

Operating Revenues

As published	\$553,831,581	
Rate increases—to annual basis	6,664,606	
Freight and allied services—Canada		
Eight per cent effective Oct. 11, 1949 superseded by		
16 per cent effective March 23, 1950, 20 per cent June		
16, 1950.		
Passenger—Canada	382,794	
Military Fares, April 1, 1950; commutation ticket		
fares, Oct. 7, 1950; cancellation of second-class fares and		
increase in round trip first and coach class fares		
between Montreal and east to maritimes and		
Newfoundland, October 1, 1950.		
Retroactive Mail Pay:		
Canada	\$1,178,800	
United States	469,200	
	1,648,000	
		\$559,230,981

Operating Expenses

As published	493,997,079	
Increased wage rates to annual basis:		
Canada	\$8,706,000	
United States	1,040,000	
	9,746,000	
Increased material prices to annual basis:		
Canada	\$5,157,295	
United States	680,864	
	5,838,159	
Elimination deferred maintenance credit	9,000,000	
		518,581,238
Net operating revenue		40,649,743
Taxes, equipment rents and other income accounts		17,417,730
Available for interest		23,232,013
Plus deficit, Newfoundland Services (Restated)		3,311,508
		26,543,521
Interest on bonds held by the Public		24,019,158
Transferred to Reserve		\$ 2,524,363

The CHAIRMAN: Now we come to the next point dealt with in the letter, namely paragraph 3 on the second page of the letter.

Mr. GILLIS: Mr. Chairman, before you finish with this item of structural changes in the Canadian economy there is a question I would like to ask Mr. Gordon, and if I do not do it now I doubt if I will have another opportunity.

The CHAIRMAN: All right, Mr. Gillis.

Mr. GORDON: I am sorry, Mr. Gillis I missed your point.

Mr. GILLIS: I just wanted to ask you a question here under this note on structural change in the Canadian economy. You will remember that last year I discussed the question of the handling of the smaller coal operator, and his position in the market in supplying coal to the C.N.R. The situation is this, that usually it is the large operator who sets the price. This case is a specific problem. I have resolutions here from the board of trade of the town of Inverness. These people are pretty badly situated, and at times during the summer they have difficulties. They have I think been in negotiation with the C.N.R. in regard to a price for their coal, a price that would be suitable for the small operator, and this resolution to which I refer suggests that you might give further consideration to the bid this particular operator makes. I would just like to know if you have any data on what the picture looks like, and what the chances are on meeting them in that particular area.

Mr. GORDON: Well, on your general question last year, as I recollect it, Mr. Gillis, I pointed out that in establishing price we had to take into consideration the question of the quality of the coal plus delivery, et cetera and et cetera; and that while we buy coal from the larger companies, establish contracts with them, that all tends to set the market price. Naturally, when we buy a large amount of coal at a price we expect that to establish more or less the market price, but we enter into negotiations with each one of these little mines and we go as far as we possibly can in the matter of meeting their supply; but we have had difficulty with certain mines in the maritime provinces in the matter of volume and quality. I have one in mind in particular, although I cannot recall the name at the moment. There are some of these mines which cannot give us the quality of coal which is needed. But the real trouble is not a matter of deliveries, it is not a matter of price; it is the fact that the quality was so poor that we could not haul our locomotives from one coaling station to another. It does not pay to load up a locomotive with fuel that is not going to take it to the next coaling station because you would have to send another locomotive out to haul it back to a coaling station.

Mr. GILLIS: I do not know that the question of the quality of the coal would enter into the picture here. The resolution states this: we are of the opinion that the Canadian National Railways should increase the price of local coal to a figure whereby the local operators could obtain and accept a railway order—. Those particular people are probably badly located. As you know the mine has been operated under a subsidy from the provincial government of something of the order of half a million dollars a year. There are a couple of mine operators there and it is pretty difficult for them to market their coal. The grade of the coal I think is good. There must have been some negotiations about this matter because the board of trade has taken it up.

Mr. GORDON: It may well be that the same economic factors apply to western coal as well as to eastern coal, and it is not easy from a management point of view to justify a general policy that we should subsidize coal production. We are prepared to pay a fair market price on a competitive basis, and in many cases we lean over backwards, particularly when faced with emergencies, to help out the little fellows. We have done that both in the east and the west, but when it comes down to a question of the payment of a higher price to the little fellow

it merely comes down to a question of subsidizing that mine, and I do not feel that we are justified in doing that.

Mr. GILLIS: No, I do not feel you are either, and my main reason for raising it here now is that I think it is a problem for the Dominion Coal Board and that the operation is absolutely essential to the economy of that particular part of the country.

Mr. GORDON: The question comes up even more acutely in regard to a certain Alberta mine where a failure to sell coal to us at a price which is reasonable and competitive has meant and is meaning the actual closing of that mine for all time to come. That is just how serious it is. And if it should become a matter of policy to keep coal mines in operation when their actual production cannot stand the test of reasonable competition, then I must repeat that it is not a matter for the Canadian National Railways.

Mr. GILLIS: I agree with you in that respect. It is a matter for the government. I raised the question merely to get your reaction so that I can talk to somebody else about it. I wonder if the minister would care to comment on the question? A subsidy which is necessary to straighten out the Canadian National market for that particular area would be very, very small. The government has a policy of subvention of mines. They pay subsidies to some of the largest operators to some considerable extent, while smaller ones have never enjoyed that privilege. In this particular case the provincial government heavily subsidizes that operation.

I am going to take the matter up with the Coal Board. But I wonder if the minister might not care to comment on the matter at this time?

Hon. Mr. CHEVRIER: I believe the Minister of Trade and Commerce has already spoken about it in the House on more than one occasion. Moreover, I believe that the Dominion Coal Board has been assigned from the Hon. Mr. Howe to the Minister of Mines and Technical Surveys, so I would hesitate to make any pronouncement on a matter which is really not my responsibility. But I have noted the comments which Mr. Gillis has made, and shall be glad to bring them to the attention of both Mr. Prudham and the Hon. Mr. Howe, although I think they are Mr. Prudham's responsibility now.

The CHAIRMAN: Are there any further questions in regard to any other paragraph of the letter prior to the paragraph concerning employees' pensions?

Mr. FULTON: Yes, Mr. Chairman, the paragraph immediately preceding that where you say:

... the evidence is clear that extensive capital programs must be contemplated in the coming years in order to bring the system to an appropriate state of readiness in both equipment and facilities.

May I ask whether those contemplate anything over and above the budgets which you presented to us last year and this year?

Mr. GORDON: Yes. I have a program which contemplates expenditure on a basis which is beyond the existing budget which I have before the committee and, as a matter of fact, I have submitted to the government for Order in Council approval the purchase of various types of equipment which will not be included in the 1951 budget but which will be in some future budget. That program has been laid before the government and there have been certain Order in Council approvals of it.

Mr. FULTON: Obviously I should not ask you anything which would reveal information of a competitive nature as to your intended additions.

Mr. GORDON: I would suggest, Mr. Minister, that since these are Orders in Council and since they deal with equipment and purchases, that this question might be better dealt with in the regular budget review when we come to it.

Hon. Mr. CHEVRIER: Yes, if it is agreeable to Mr. Fulton.

Mr. FULTON: Yes, I would be glad to agree. But what sort of capital structure over and above the ordinary annual budget do you visualize? Can you give me an answer to that without saying things which you would not wish to say because of competitive considerations?

Mr. GORDON: No. I think I can give you that when we come to our budget on analysis—I mean the program which we have definitely laid before the government having to do with the purchase of equipment and the placing of orders in advance by reason of the fact that these days it is essential to get on to mill schedule in advance.

Mr. FULTON: Is the type of purchase which you have in contemplation confined to the addition of capital betterments to your existing facilities, or does it embrace a program of expansion?

Mr. GORDON: It includes an estimate of increased traffic but I am talking about the question of equipment.

Mr. FULTON: For example, are you considering building a railway into the Yukon or anything of that nature, something to open up the north? Is it that sort of thing you have in mind when you speak of a capital program?

Mr. GORDON: No. What I am talking about is the request we have made to the government, which they have approved, as fast as we put it before them, covering the purchase of equipment which may not come into our annual budget until 1952, 1953, or 1954. It is a planned budget.

Mr. FULTON: I agree with you that we can discuss it better when we come to the budget.

Mr. FRASER: I do not know if I am allowed to discuss it at this time, but it was brought to my attention that the line between Coniston and Kincardine, the passenger end of it is to be done away with and that it is just going to be freight. It runs a distance of some 82 miles.

Mr. GORDON: We have an application for that before the Board of Transport Commissioners. It is now being considered by the board. That is the same kind of change we discussed before.

In connection with our study of that particular service we believe that we can substitute a highway service in the form of bus or truck to handle passengers, mail and express and give a better service, and to make a definite economy in respect to rail operation.

Mr. FRASER: Did you take into consideration the fact that that section is in the snow belt and that there might be a week at a time during the winter when it would not be possible to carry out that service?

Mr. GORDON: That matter will be part of the evidence to be heard by the Board of Transport Commissioners. Our submission is before the board.

Mr. GILLIS: Does not the provincial government keep the highways open?

Mr. GORDON: Mr. Dingle reminds me that I am a little ahead of myself and that we have not yet actually filed our application with the Board of Transport Commissioners. But we are in the process of discussing it with the municipalities, and we are listening to their representation in respect to it. After that is done, we shall determine whether or not to forward our application to the Board of Transport Commissioners.

Mr. FRASER: You say you are doing that now?

Mr. GORDON: We are doing that now. We are having discussions with the municipalities and listening to their representations.

Mr. FRASER: It was brought to my attention about the snow in that district, and that the highway plows cannot keep up with the snow sometimes, even the rotary plows.

Mr. GORDON: That will be a question of fact which we shall consider when we deal with the final application. We would expect to show that under any reasonable conditions we could service the community.

Mr. FRASER: There are some sections in there which are not served by roads, I mean there are just side roads, not main highways.

Mr. GORDON: That is a thing on which the Board of Transport Commissioners will have to form judgment when we make application for abandonment of the line. At that time all interested parties will have their day in court. Generally bias is usually against us, including the fact that the people who make representations come down by bus or by automobile to tell us that they must have a railway passenger line.

Mr. FRASER: A case was brought to my attention today where in the summer ice cream for a number of stores and hotels came in there by bus or by truck. The station agent did not inform those people who were getting the ice cream that they could have brought it in much cheaper by railway, saving 75 cents on a can shipping it in by railway.

Mr. GORDON: Well, I would be glad to look into that lack of salesmanship.

Mr. FRASER: They just discovered that, I believe, last summer. It should have been railway business. And I think that in some cases where you are doing away with the railway line, if only the proper initiative was brought to play, you would get sufficient business to carry on and you would not have to do away with the line.

Mr. GORDON: That is the sort of generalization that is always made in hearing these cases and I can assure you that these kind of things are sifted very thoroughly by our people before we make application. In such a position as this we find it likely that the bias will be against us, so anything of that kind, I am certain, would come out in the course of review. If we did not produce it, somebody else would.

Mr. FRASER: You would be biased before you started in with it?

Mr. GORDON: I would not be biased until I formed a judgment on whether we had a case. But after studying it and reaching a conclusion that we did have a valid case, I would be biased in the sense that I would authorize the application for abandonment to go forward before the board.

Hon. Mr. CHEVRIER: We had a very full discussion of this matter during the discussion of the estimates of the Department of Transport. I have received quite a number of representations protesting against the withdrawal of this service and have brought them to the attention of the railway. But I have also made it quite clear that in this instance the railway's proposed action is dictated by the need for economy and that they have no alternative but to find other means of serving the district.

As Mr. Gordon has clearly pointed out, the people interested will have their day in court and all individuals who want to protest against the withdrawal of the train service between Coniston and Kincardine will be heard.

Mr. FRASER: It is the passenger service I understand which is to be withdrawn. The freight service would be continued.

Mr. GORDON: Passenger, mail and express, yes.

Mr. FRASER: The railway is paid \$25,000 to carry the mail. I wonder if, when you are snow-blocked in the winter, it would be possible, if you do away with the passenger service, to institute during that time a service by bus or by passenger car?

Mr. GORDON: Our general approach to a matter of this kind is that we recognize our obligations and when we withdraw a service, we recognize our

obligation to provide a service to the community in some alternative way. If any difficulty should occur such as you describe, I am sure that an effort would be made to provide an emergency train.

This whole subject is typical of the difficulties you set me as president of the railroad in running it in a businesslike way. I have before me a number of situations where, according to any business standard, we should apply for abandonment, and we should apply an alternative service. But the very people who are shocked to find that the Canadian National Railways cost the taxpayers money continue to resist our efforts to economize.

Mr. FRASER: I agree with you but at the same time you took over the railroad in the riding of my friend from Temiscouata and it was not paying.

Mr. GORDON: You say that I took it over?

Mr. POULIOT: For your information, Mr. Fraser, a gentleman who is a prominent lumberman and who was president of the Canadian Lumbermen's Association two years ago, asked for 5,000 cars. Mr. Dingle can say that it is a fact. This lumberman asked for those cars for shipments from Whitworth.

Mr. FRASER: 5,000 cars?

Mr. POULIOT: Yes, 5,000 cars. But the cars were not available last winter. It is going to be a booming business.

Mr. FRASER: I am glad to hear that.

Mr. POULIOT: Just you wait and see.

Mr. FRASER: If my hon. friend from Temiscouata has anything to do with it, it will be booming.

Mr. POULIOT: Thank you, sir.

Mr. JAMES: There is a line down in our area from Port Hope to Millbrook, which is the next station past Palmerston. The Board of Transport Commissioners has ruled in favour of the Canadian National, allowing them to abandon it. My only hope is that before the Canadian National sees fit to abandon that line—there is a considerable rumour of industrial development in that particular area around Port Hope which I believe will be of great importance if it goes through, to the Canadian National. It may not include the service on the whole line from Port Hope to Millbrook but on the other it may. But I repeat that my only hope is that, before abandoning that line, you will check with the Port Hope people and bring yourselves up to date on the matter before you decide upon abandonment.

Mr. GORDON: I might say that representations have already been made to me by the Port Hope people and you may rest assured they will be given full consideration before we actually take action under the authorization by the board.

Mr. FRASER: Peterboro was also represented there and I know that back in 1944 we interested ourselves in the matter and we kept the line open at that time. In fact, I had quite a lot to do with it.

Mr. MACDONNELL: Do I understand from Mr. Gordon that in cases such as this the railway has the right to operate trucks or buses itself? I had the opposite impression but I gathered from him that the railway can offer such a service.

Mr. GORDON: Well, it varies across Canada. Local conditions are not the same and when we do suggest an abandonment and offer to provide a highway service we first establish that we can get the necessary licences and permits.

Mr. MACDONNELL: From the provincial authorities?

Mr. GORDON: Or alternatively, if we cannot do it someone else will do it for us, but it is part of the case we make to the Board of Transport Commissioners. We have to show the Board of Transport Commissioners that we are

prepared to provide an alternative service and are able to do it, so in some cases we get a permit to do it or in some cases where we cannot get a permit we will hire someone to do it for us.

Hon. Mr. CHEVRIER: In any case, an application will have to be made before the Municipal Board of Ontario for such a permit.

Mr. GORDON: Yes, it would depend on what locality it was in.

The CHAIRMAN: Any further questions?

Carried.

Now, we have reached employee pensions and before doing that there are two matters I would like to bring up. The member for Restigouche-Madawaska who is not a member of this committee spoke to me indicating that he would like to speak on this question to the committee. I suggested to Mr. Dube that perhaps he would be contented with writing a short letter and having a letter appear in our stenographic report.

Mr. POULIOT: Mr. Dube is right here, Mr. Chairman.

The CHAIRMAN: Yes, I see him but I thought perhaps since he has indicated that he is satisfied with that that it would be preferable if I would simply produce the letter.

Mr. POULIOT: Perhaps Mr. Dube will have some new facts to bring before the committee and if the committee has no objection he could be heard.

The CHAIRMAN: He could be heard but I think he should be heard after the matter has been discussed or at the end of the discussion, Mr. Pouliot.

Mr. POULIOT: I give in to you, sir, to do as you wish.

The CHAIRMAN: The other point I wanted to mention is one that is rather embarrassing to me and I am in part to blame. During the lunch hour two members of the committee have indicated to me that they, in their opinion, are entitled to the floor when this question of employee pensions is called, Mr. Knight and Mr. Mutch.

Mr. MUTCH: If that is causing you any concern it makes no difference to me. I am not going to make a speech, I want to ask a couple of questions and if it is of any concern to Mr. Knight I will not argue about it.

The CHAIRMAN: I think the chairman should be fair and as I say, I am in part to blame as I would like to indicate. When the matter was first mentioned it was first mentioned, Mr. Knight, by Mr. Mutch, and I perhaps choked him off probably more quickly than I should have done. He raised the question first at page C-3—I have checked the stenographic report—but I did not give him an opportunity. Then, later, you, Mr. Knight, brought the matter up.

Now, in view of those circumstances I believe that I should rule that Mr. Mutch has the floor.

Mr. KNIGHT: On a point of order, Mr. Chairman, I may say that I brought the matter up not on question 3 which has no connection with the matter but on paragraph No. 9.

The CHAIRMAN: I was referring to page C-3 of the stenographic report of what took place yesterday. I checked the stenographic report as I wanted to be fair in this.

Mr. MUTCH: Under the circumstances, my only point of raising the urgency was that I would like to get away before six o'clock this afternoon. I have not a prepared memorandum with regard to this but there are a few remarks I would like to make. My impatience is with the chair and not with Mr. Knight. But, if he is ready, it makes no difference.

The CHAIRMAN: Go ahead, let us have it.

Mr. MUTCH: You stated in this paragraph, Mr. Gordon, that one of the by-products of inflation, which is engaging the attention of management, is

a need of adjustment of the system of pension plans. I am very well aware that this particular question divides itself into two phases. There is the phase which concerns those former employees of the railway who are today pensioned on a minimum pension, in some cases as low as \$25 per month, and I am aware that their problem and plight fits in somewhat with the general plight of other superannuated civil servants and that is the attitude which the government has formally taken. For the moment, while I have strong views on that question which I have made known previously in the House and elsewhere, what I wanted to concern myself here with was the question of the present negotiations which I understand both from management and from some of the men concerned are presently going on; I should like to have, if you can give us any idea of the nature and extent of the progress being made between management and representatives of the employees with respect to the establishment at the present time of a higher basic pension for those currently employed.

I do not know whether it is impossible in one discussion to reconcile the position of those who have been retired already with those who are being employed now or are still employed but I do think it would be of advantage to the committee and certainly it would be of advantage to many of the people whom I represent here, if they might have something from you in the nature of a forecast of what is to be expected or what management expects from the discussions which are going on.

Although, I think perhaps I represent one of the largest Canadian National constituencies in western Canada, if not the largest, and while I know the importance which is attached to this question, not only by those employees themselves but by others in the community, I have refrained up to now from making any attempt to speak of it in the House or to engage in any discussion on it at all, and I would be content for my part if we could get an indication from Mr. Gordon, first of all, of the satisfactory nature or otherwise of the negotiations going on and a forecast, if he feels that he can make it as to what we may expect in the immediate or near future with respect to the upward hike of the basic pension of those being employed and currently employed.

Mr. POULIOT: If you have strong views on the matter why do you not present them now to the president of the Canadian National Railways? Why do you not try to impress on Mr. Gordon your strong views? You stated you have strong views, so why do you not express them here?

Mr. MUTCH: With your permission, Mr. Chairman, I think if Mr. Pouliot had listened to me as carefully as he usually does—

Mr. POULIOT: I listened carefully to you in the House last year and you complained about the pensions and I would like you to explain the same thing to Mr. Gordon before the committee.

Mr. MUTCH: Regarding my remarks with respect to my strong views, I was dissociating myself from the remarks of retired civil servants generally and those who have already retired. It was at that time that I said I expressed strong views but I went on to say with respect to my remarks I was confining them at this moment to the question of the basic pensions for those currently employed.

Mr. POULIOT: It is just as clear as mud.

Mr. GORDON: Well, I will try to clear it up a little. The first thing I would like to say to Mr. Mutch is that I want to disabuse anybody's minds of any impression they may have that the Canadian National management needs to be prodded into a consideration of the pension fund situation as it exists today. The management of the Canadian National Railways has been very conscious of this situation and one of the first things I did following my appointment was to formalize the appointment of a committee of executive officers to

study and make recommendations for the revision of our pension plan and to review the experiences and practices of other organizations as well as the changing concept of pension fund matters over the past fifteen years.

At the same time we also took steps, and I would like Mr. Gillis to notice this particularly, we took steps to secure the views of representatives of labour organizations feeling they would be of considerable assistance to us in really assessing the sort of views that labour generally have on this subject. The committee to which I have referred has worked very hard over the past several months and while they have not yet completed their assignment I can say that considerable progress has been made and they are about ready to submit to me a tentative report on the main principles. That will, of course, in due course, involve the estimation of costs.

Now, that covers the general approach that Mr. Mutch has made because included in that review we will consider the questions which he has raised. I may say that only last week I had a personal interview with Mr. A. A. Hutchison, who is the Chairman of the General Chairman's Association of the Canadian National Railways and to him has been entrusted the policy considerations affecting the whole question of pensions and following the remarks in the House by Mr. Diefenbaker and Mr. Knowles, Mr. Hutchison took occasion to write them a letter expressing the views of labour, and he sent me a copy of that letter. On inquiry as to whether or not he would have any objection to my placing that letter before the committee he said he would be quite satisfied if I did. So the best thing I can do to put this whole question in perspective is to read that letter.

It reads:

THE ORDER OF RAILROAD TELEGRAPHERS
CANADIAN NATIONAL RAILWAY SYSTEM
DIVISION No 43

WINNIPEG, MAN.
April 12th, 1951.

Mr. John DIEFENBAKER, M.P.
House of Commons,
Ottawa, Ontario.

Mr. Stanley KNOWLES, M.P.,
House of Commons,
Ottawa, Ontario.

Gentlemen:—It has come to my attention that you asked some questions of the government in connection with C.N.R. pensions and I would understand that it is your intention to ask further questions before the special committee probably next week.

I wish to assure you, on behalf of the C.N.R. employees, that your interest in this matter is very sincerely appreciated and we know the sincerity of your desire to improve the condition which we know only too well to be very bad indeed.

However, I would like to give you an outline in brief of the situation as it is at the moment.

Through our General Chairmen's Association we have been trying for some years to effect improvements but have met with no success or encouragement until quite recently.

At our annual meeting, held in November 1950, we had the pleasure of having Mr. Donald Gordon, President of the C.N.R., to address a joint meeting of our association and the representatives of the Canadian Brotherhood of Railway Employees. The combined meeting represented practically all organized labour on the C.N.R.

At our request Mr. Gordon spoke on the subject of pensions and told us that he realized that our present pension plan is inadequate and outdated. He promised to set up a committee of railway officers to meet with a corresponding number of representatives of organized labour to undertake to revise the existing rules.

He fulfilled his promise and set up a committee of high ranking officers. We, on our part, selected a committee of Labour representatives drawn from the Canadian and International unions.

Negotiations have been carried on by the joint committee in a very co-operative atmosphere and we have now reached the stage where certain concrete proposals are being considered and the proposals have just been submitted to actuaries for their report and advice as to the cost to employer and employee of the various plans which are now under consideration.

It is expected to take at least six weeks to get a report from the actuaries and following the receipt of that report it is intended that we proceed as rapidly as possible to revise the pension rules.

I feel very sure that we are finally on the way to completing a very satisfactory revision of the rules and that it will not be delayed any longer than is absolutely necessary.

One of our prime objects is to improve the status of those who are now on pension and we have reached tentative agreement on what can be done to improve their situation but our plan is dependent to a great degree on the action of the government in regard to the institution of an old age pension at age 70 without a means test, and we earnestly solicit your continued support of that project.

As I said previously we appreciate your action in asking questions and your interest on behalf of the employees whom we represent. I wished to give you the facts in the matter and to say that I doubt that our interests would be advanced in any way by pressing the government or the railway officers for additional information at the present time.

I fear that pressure exerted now might result in hurried decisions which would not be as satisfactory as those we hope to reach by negotiations now in progress.

It would be appreciated if we could continue the present negotiations to a conclusion along the lines on which we are working.

If the conclusions reached are not satisfactory we will then hope to have the privilege of calling on your good selves and all our other friends in the House for such assistance as is necessary to reach a satisfactory solution of our problem.

In all fairness I cannot do other than say that I believe Mr. Gordon and his officers are doing all that is reasonably possible to cooperate with us in our present efforts and the fact that this revision has been so long delayed is not the fault of the present administration of the railway.

I should have stated that I was elected to act as spokesman for the committee which was set up by the Canadian and International Unions in matters pertaining to the revision of pension rules so that you may regard this letter as being from the elected representative of the employees.

Again thanking you for your interest on our behalf and trusting that you will find it possible to comply with my suggestion that you do not press the matter too much at this time, I am,

Yours very sincerely,

(Sgd.) A. A. HUTCHINSON,
*Chairman, General Chairman's Association,
Canadian National Railways.*

Mr. FULTON: You said that letter was addressed to Mr. Knowles and Mr. Diefenbaker, and that you yourself received a copy. Did anyone else receive a copy?

Mr. GORDON: I do not know any more than what the letter shows—that a carbon copy was sent to the Hon. Lionel Chevrier, Minister of Transport and Mr. Donald Gordon.

Hon. Mr. CHEVRIER: I received one.

Mr. MACDONALD: I would like to express a word of thanks to Mr. Gordon for placing that information on the record.

Mr. KNIGHT: May I now ask a few questions?

Mr. GILLIS: I wonder if I might just say a word in reference to that letter. I am not going to discuss pensions at all but I am very glad to hear that letter read. I think it is a very sensible letter and it also indicates to me the progress the management is making in linking up with the employees. That was not the case when Mr. Gordon came before us the first time and I think it was myself that suggested that the road to good relations was by working closely with the elected representatives of the employees. I am glad to see that Mr. Gordon has done that.

I think now that Mr. Knowles and Mr. Diefenbaker have been advised that the management is co-operating and that they are working out a formula on this very vexing question of pensions they will be quite satisfied to let the matter rest with the management and the employees—the two parties affected. I take that letter as an indication that Mr. Gordon has taken some sound advice from this committee last year and it is paying dividends and they perhaps can arrive at a solution.

Mr. KNIGHT: May I, before I start these few questions, say in regard to the order of preference between myself and Mr. Mutch, on which the chairman has referred me to a place in the minutes which show that Mr. Mutch has precedence over myself, that there is no reference anywhere that I can find.

The CHAIRMAN: You will find it.

Mr. KNIGHT: I would be pleased if you would indicate the place.

The CHAIRMAN: We had a long-winded discussion on box cars and moving wheat and your interruption—

Mr. KNIGHT: My interruption was after Mr. Gordon read his preliminary report—

The CHAIRMAN: Yes.

Mr. KNIGHT: Let me draw this to your attention. I asked if the matter of pensions was in order at that time and you said and the committee agreed that it would be better left until the details of the report had been taken. I then withdrew and you said that you would write down my name as having priority on pensions—

The CHAIRMAN: Well—

Mr. KNIGHT: Let me finish the story.

The CHAIRMAN: I want to correct you if I may. That came up under the heading of employees compensation and at that time I made a notation on the forwarding letter under "employee relations": "Mr. Knight". If you will hand me the record I will be glad to turn it up for you.

Mr. KNIGHT: May I say the reference you have given to Mr. Mutch's claim for precedence does not at all mention the matter of pensions but simply says—

The CHAIRMAN: I indicated, I was in part to blame.

Mr. McCULLOCH: What difference does it make which one brought it up?

Mr. KNIGHT: May I say I am simply justifying the position of being a little impatient about the order of business.

Mr. McCULLOCH: Let us get on with the business.

Mr. MUTCH: For my share I offer my apologies.

Mr. KNIGHT: There are no apologies required, Mr. Mutch. I was only explaining my apparently stubborn position in the matter.

Mr. POULIOT: If I am permitted—or have you got something else?

Mr. KNIGHT: I want to ask a couple of questions. First of all I want to know for the record, and I am not going into a discussion of the three types—service, contributory and so on, but what is this basic pension in the matter of amount in terms of dollars per month?

Mr. GORDON: The basic pension, which is a free pension in the sense that it takes no contribution from the employee, is a free pension of \$25 a month subject to the rules of the fund.

Mr. KNIGHT: How long has that amount been in existence?

Mr. GORDON: Since 1935 when the pension fund went into existence.

Mr. KNIGHT: There has been no increase since?

Mr. GORDON: There has been no increase in the basic free pension.

Mr. KNIGHT: Presumably that pension would be based on shall we say, to some extent, the need of the time and the cost of living at the time?

Mr. GORDON: Yes, but that is my trouble. It is so difficult to discuss any specific questions without having to clarify or elaborate. The basic pension was a free pension but attached to it was the right of the employee to make contributions up to 10 per cent of his wages. The company undertook to match similar contributions up to 5 per cent and the accumulated moneys accruing therefrom would be added to the pension.

Mr. KNIGHT: What is the comparable pension of the C.P.R.?

Mr. GORDON: We can talk for hours when you start comparing pension plans but, broadly speaking, in respect to the basic pension, the C.N.R. pension is still more generous than the C.P.R. pension for the reason it is a free pension and the C.P.R. pension is a contributory pension—3 per cent I think is the amount. Let me put it this way. If the interested C.N.R. employee had contributed to the C.N.R. fund 3 per cent of his wages in the same manner as he would be required to do in the C.P.R., then the end result when he went on pension would be that the money which he had accumulated, plus what the C.N.R. had deposited in his favour so to speak in the pension fund, plus the basic free pension, would on the average yield a larger pension than the C.P.R. I am referring to the lower brackets; I am not referring to the salaried officers.

Mr. KNIGHT: I understand. Whose responsibility is it to increase these pensions if it is decided that they shall be increased? Is it in the hands of the pension board?

Mr. GORDON: Are you talking about the basic pension?

Mr. KNIGHT: Yes.

Mr. GORDON: Well that again is a difficult thing to answer. It would first of all require a recommendation from the pensions committee. It would then require recommendation from myself, as president, to the board of directors and, assuming the board of directors agreed with it, it would be a matter which would require approval of the government in one form or another. I am not dealing with the legal aspect of it, I am dealing with the practical aspect.

Mr. KNIGHT: Would there, in your opinion, be any validity to the assertion that these pensions—or the amount of them—were tied up with any other pensions enjoyed for instance by civil servants or any other classes?

Mr. GORDON: I do not know how to answer that except to say that the C.N.R. pension fund is not a fund you can compare with another broad group.

We are trying to make comparisons now but it was a pension fund set up at that date representing the practical solution at that time, and it had in mind the atmosphere of the day, if you will, and everything else that went into it.

Mr. KNIGHT: Times have changed?

Mr. GORDON: Times have changed and that is why I have told you our committee is looking at the sort of changes that have taken place.

Mr. KNIGHT: What you say in the report is they are considering revision in the pensions of those retiring. I am interested in the pittance of those who have already retired and I have here answers given by the assistant to the minister in *Hansard* at page 1129 and following. I find what I ask you to corroborate—that there are certain people who are retired and who are in receipt of a pension of less than the basic amount of \$25, to the number of some 100. Secondly, according to information given in the answer there are 3,256 persons who are in receipt of the actual amount of \$25.

Mr. GORDON: Well I can clear that up in a moment. The basic pension is the free basic pension which went into effect in 1935. The basic pension has been \$25 a month but there are some employees on pension who are covered by a pension fund which was in existence before that date. There are 24 of such employees who are in receipt of less than \$25 a month, and that number refers to the old plan in effect before 1935.

Mr. KNIGHT: Then those who are in receipt of exactly \$25 a month are listed in *Hansard*, by the answer I suppose of the C.N.R., as being 3,256?

Mr. GORDON: That would be correct.

Mr. KNIGHT: That is correct. Then would my calculation be fair, and I am thinking of the basic old age pension in the country being \$40 a month, that there are now 7,000 retired Canadian National employees who are receiving under \$40 a month—which is the basic amount of the old age pension?

Mr. GORDON: You are about right I think.

Mr. BENEDICKSON: Of course, some of those are in the age group 65 to 70 who receive no old age pension.

Mr. GORDON: Again there is some qualification but around 7,000 would be right.

Mr. KNIGHT: Well I would like to ask you something on this paragraph, which I shall call paragraph 9 in the report—the one which we are discussing:

One of the by-products of inflation which is now engaging the earnest attention of Management is the need for adjustment of System pension plans if the decline in the value of money and its effect on retiring employees in the lower pension brackets is to be recognized.

Does that mean exactly what it says or does this mean revision in the amount received by those already retired—or is it to be like the superannuation of civil servants in which we make plans for the future but we do not take into account the pitiable condition under which those people live who have already retired? Does this, for instance, cover the revision of pensions for those who are already in receipt of pensions, or is it merely a plan for the future in view of the increased cost of living and all the rest of it?

Mr. GORDON: Well you see this is indicative of how we get from one question to another on this, and it is endless. The fact of the matter is that the people who are on pension have a contract for life. They have a contract for life and there is no way in which we can legally amend that contract without their consent.

Mr. KNIGHT: I think it would be forthcoming?

Mr. GORDON: Well it just shows you how many implications there are. We have been considering a plan whereby we can bridge the gap between 65 and 70,

until we get into the old age pension bracket. In respect of employees to be retired that is fairly easy because we can talk to them while they are our employees and if the government agrees with our plans we would not expect much difficulty there. But, before we can make that applicable to employees who have retired they would have to be searched out and give up an existing contract—about which they would be suspicious. They would not believe the C.N.R. was going to give them something better. We would find it difficult to break that down, and remember also these men are old men and they are not too competent to judge what is in their own interests, and so on and so forth. So, I cannot give you any assurance whatever that the plan as finally agreed upon will be made applicable to retired employees.

Mr. KNIGHT: Would it be a fair position—and there is nothing personal in this—to say that it is a perfectly satisfactory arrangement to the railroad, in view of what you have said about the old age pension as such, the government has been taking over; that it is a fairly satisfactory arrangement to the railroad that there are presently 4,000 retired people who are receiving less than the old age pension, so that when and if they reach an old enough age the government will assume the responsibility that the railroad is now undertaking.

Mr. GORDON: No; now, that is not quite it. The plan we have in mind will still cost the railway exactly the same as the present contract extended would cost, but I cannot make it clear without going into the details of the plan. I do say the plan we contemplate is not going to save the company money or cost it less for these retired employees.

Mr. KNIGHT: I am glad to hear that. My last question is: in view of the success of this report—and I congratulate you, sir, and the railroad upon it—in view of this report which states that the income deficit has been reduced from \$42 million to \$3 million, do you not think that the time is here and now when some increase, some consideration—call it what you like, charity or a gift—I presume there is no legal argument why they should have it—should be given to these people. Taking into account this inflation, taking into account the difficulties these people are under due to the cost of living in which they have had no part and in which they had no share; taking into consideration that these are the men who have built up this country in rail service—do you not think that something should be done for those people, at least for those people who are receiving, shall we say less than \$40 a month; or if you wish, \$25? That is the object of the whole series of questions.

The CHAIRMAN: Mr. Pouliot?

Mr. KNIGHT: Mr. Gordon has not answered my question.

The CHAIRMAN: I think he has already answered it.

Mr. KNIGHT: I did not hear the answer.

The CHAIRMAN: Has he not already answered it?

Mr. POULIOT: He did when he read the letter.

Mr. KNIGHT: I was going to suggest that the logical place for the answer is at the end of the question.

Mr. GORDON: Well, of course, you are summarizing the question in too narrow limits for me to answer intelligently, because as I have said already we must discuss our final plan with the government and get their approval. The government has already indicated—and I think I am not expressing government policy by simply repeating what has been said already—that in regard to any adjustment which must be made in respect of retired C.N.R. employees that the government must necessarily consider other types of people who are in similar circumstances. They have said that repeatedly, but I hope I will not be drawn into any long discussion. As a result of our discussions we hope to come up with

a plan which will certainly help considerably, but you can impede the measure if you try to fix a definite plan at this time.

Mr. KNIGHT: I would like to say that the record of the Canadian National in that regard is very good. It has been better than that of the Canadian Pacific. I am speaking particularly of the men who went out on strike in 1919. I think that perhaps in the light of the record here that you may regard the position of the Canadian National Railways as not so good.

The CHAIRMAN: Just a second, Mr. Knight.

Mr. GORDON: I wish you had not said that of the Canadian National Railways, because, as I said at the beginning, the Canadian National Railway management is very seized of this pension problem and has been for some considerable time. There is no lack of sympathy on the part of the Canadian National Railway management, and I think Mr. Hutchinson's letter makes that abundantly clear.

Mr. KNIGHT: In conclusion may I say that I did not get a clear answer on the comparison of this road with the C.P.R., which is the question I asked. I quite agree that there are many applications.

Mr. POULIOT: Mr. Chairman, I wish to thank Mr. Gordon and the management. I am satisfied that they are all doing a good job; but I do hope they will give kind consideration to a memorandum submitted to them by old people and by the unions. Now, as Mr. Gordon knows, in the system there are quite a number of pension plans.

Mr. GORDON: There are, what?

Mr. POULIOT: There are several different pension plans.

Mr. GORDON: Yes.

Mr. POULIOT: I am going to start with the first one, that of the Inter-colonial and Prince Edward Island pension fund, which was established by the government; and at the time all railway employees were government employees, just as much as any civil servant here in Ottawa today is; and they were all paid by the government, they were government employees; and their salaries were very low although the government was paying its share of the amount; and it is now still the same thing.

Mr. GORDON: I can say this to you, Mr. Pouliot, on that; that any people who were members of the I.C.R. pension fund at the time of the amalgamation have retained the rights which they then had. I can also say to you that the I.C.R. pension fund was a very generous one, and the surviving members of that fund have far better benefits, it is in no way comparable with the rest of the Canadian National Railways.

Mr. POULIOT: I can tell you, Mr. Gordon, that there are many of these people who receive a very small pension and I have here a petition which was given to me some time ago. I do not know to whom I should give the original copy and to whom I should give the other—whether to Mr. Gordon or the minister.

Mr. FULTON: Let the chairman decide.

Mr. POULIOT: I will give it to the chairman and he will act as King Solomon. Thank you. Mr. Gordon, I cite to you the case of these people in the hope that they will receive your earnest consideration.

Mr. GORDON: Thank you. We will look after it.

Mr. POULIOT: And the kind consideration of the management. I know some of these old engineers many of whom worked with the Inter-colonial Railways some years ago, and they were getting \$1.25 or \$1.35 a day, with

the result that the basis of their pension was very low; and I know that many of them live in very difficult circumstances. They are old and faithful employees and they deserve a better pension.

Mr. GORDON: May I say this, Mr. Pouliot, that as a general statement any person receiving benefits from the I.C.R. pension fund receives nearly twice as much as the same type of employee in the rest of the Canadian National system.

Mr. POULIOT: Of course, there are many kinds of pensions.

Mr. GORDON: As I say, the general benefit is almost double the average of the rest of the system, so in making an examination of this and expanding the pension fund I am glad to be able to take this case on because it is much easier than many I have had to look at.

Mr. POULIOT: Yes, and besides that you get some consideration from the dominion government. There is a precedent for that, is there not?

Mr. GORDON: May I say that we have this year through C.N.R. funds, contributed \$3,288,000 into this fund, which definitely is far beyond what the railway was intended to assume at the time the amalgamation was made. There is nothing in the I.C.R. that needs any apology.

Mr. POULIOT: No, but you see there are several systems of pensions. There are many of these retired employees whom I know and whose cases I could bring to your attention, but I will not do that today. I want to present the case just as it stands and I want the management to give it as full consideration as may be possible. I am bringing this matter to the attention of Mr. Gordon, and the minister, and I am satisfied that what is being done will apply, as I understand it, to all railway men, and to the men who are not under any pension scheme. Is that so?

Mr. GORDON: I am ready to say specifically at the moment that in all probability it would not apply to the I.C.R.

Mr. POULIOT: Well, is there some provision for these men? I refer to the men who are working on the Canadian National Railways and have been working there since the amalgamation of the I.C.R. and the Transcontinental Railway and the Grand Trunk System. Those people are not in the same case at all as the people who were contributors to the I.C.R. pension fund.

Mr. GORDON: There is no person under the I.C.R. pension fund plan, who thinking of his own selfish interest, would transfer out of that fund into the C.N.R. fund, even after revision. The I.C.R. fund is a really generous fund, and even after any proposed revisions that I could recommend the beneficiaries under the I.C.R. plan would still be better off than anybody else on the C.N.R. system.

Mr. POULIOT: I hope that Mr. Dube or the minister or Mr. Gordon or someone will make an explanation to the committee about this. I would also like to bring out another case, that is the case of the veterans of the Temiscouata Railway who have been working for many years at very low salaries.

I will make representation in due course to Mr. Gordon and to the members of the committee. But in the meantime I am sure that the committee will listen with great interest to what Mr. Dube has to say about the pensions of the men on the Canadian National.

Mr. GORDON: I would like to make a comment on that because I do not think we should leave any impression that there has been any prejudice to the employees of the Temiscouata railway.

We have given every employee on the Temiscouata railway a status which gives him exactly the equivalent of a Canadian National employee, just as though he had served all his service in the Canadian National. I do not know what more we can do.

Mr. POULIOT: I must admit that they are all thankful to you and I wish to convey their thanks now. But there are old men who are not in a similar position who have worked for the Temiscouata railway going on 40 or more years.

Mr. GORDON: We have to work in accordance with a general rule of the pension fund, and it is impossible for management to pick out individual cases and make discriminating rulings.

Mr. POULIOT: I am not going to argue about it now. I shall do so later and I shall prepare a memorandum for them and I hope it will be received with due consideration.

Mr. GORDON: No doubt with your usual kindness, you will bring to our attention any specific cases which you think demand attention.

Mr. POULIOT: I have to carry the burden, and I will deliver it to you.

Mr. GORDON: Thank you.

Mr. POULIOT: I am sure that you will take good care of my request.

The CHAIRMAN: Mr. Fulton I think you have the floor but would you allow Mr. Dube to finish with his Temiscouata railway problem?

Mr. FULTON: I should be glad to.

Mr. GEORGE: Before you leave the subject of the provident fund and the centre of operation of that railway, as you know, many of the staff have made representations to you in the same way as they have made them to Mr. Pouliot. There is no doubt that these men have been treated fairly. I think we would all agree with that statement, but we are getting into higher costs of living and many of these chaps certainly have not sufficient on which to live. I would like to associate myself with Mr. Pouliot in his remarks on that subject. I do not think I can add any more to it.

The CHAIRMAN: Thank you. Now, Mr. Dube. Would you have anything to add?

Mr. DUBE: I would be very pleased to tell Mr. Gordon that we have employees who belong to the old I.C.R. pension fund who are getting today only \$30 a month pension. It was based on 1 per cent with the Canadian National Railways at the time—they were getting no salary. Take myself, for instance. When I draw my pension, I take advantage of the rise in salary which has been given to employees, so my pension would be raised according to the rates which have been given to me. But, on the other hand, these old people are on pension now and they never took advantage of that rate. They were getting a low salary and at 1½ per cent, therefore they are getting a very low pension. I have several representations to make. They cannot live on the pension they are getting now.

If I understood correctly, it seems that the old I.C.R. pension does not come under the new negotiation. What are the railways going to do about pensions? If the old I.C.R. pension does not come under the new regulation that you are to go through with, what are the old people, who come under the old I.C.R. plan, going to do for a living?

The cost of living is very high today and these people have to go to the municipalities for aid, they have to ask for charity. With the pension they are getting now they must go to the poorhouse because they cannot live on it. And I would like to know if the old I.C.R. pension fund will come under the new negotiation?

Mr. GORDON: My answer is that I would recommend very definitely that they should not because they would not benefit themselves under any possible revision that I would think practicable.

The fact of the matter is that the average pension paid on the Canadian National Railways is \$556. Remember that I am talking of the average. But on the I.C.R. it is \$1,050. So I cannot conceive of a man on the I.C.R. transferring, even if he were given the opportunity to do so.

I have just as big a heart as anybody else; but upon my soul I do not see how we can start in to correct all the sins and errors of the past. We are not discussing a problem which affects only pensioners of the railway. It is a much broader social problem than that. It is much broader, and there are many people who are getting no pensions at all, or people who are getting much lower pensions than the railway employees.

Our hearts may bleed for the railway pensioners, but if we are discussing this as a matter of social conscience, I would suggest keeping in mind the fact that there are lots of people in this country who are worse off. Would you not agree with that, Mr. Gillis?

MR. GILLIS: Absolutely. I think it adds up to fact that what this country needs is an over-all social security plan administered by the federal government which would absorb and liquidate all of the schemes that are costing millions and millions of dollars in the way of administration alone.

I shall refrain from saying anything on the subject. I am not going to get into a discussion of it. But that letter was brought up, and I wish to say this: I take it that the men who are now handling this problem on behalf of the employees and the management are working out a formula, trying to straighten out this whole pension scheme as it applies to the Canadian National. And I think that those who have been raising this matter in public should refrain from doing so in the future. We should not get the public mind all cluttered up, but rather leave it with them. I think that the proper mechanics are now being employed. The main factor is to protect the representatives of these men who are handling the problem of management. And whatever we in the House or in this committee may say about it, we cannot help it in any way shape or form. The responsibility lies where it belongs.

THE CHAIRMAN: Yes.

MR. GILLIS: I see no solution in this case. All these patches that we are making will never cure the problem. It goes on and on and on. As has been said, there are many people who are in a worse position. I can think of many of them. But until the government gets around to establishing in this country an over-all contributory retiring pension and administers it centrally, with the facts that they have available to them today, there is no other answer by way of a cure. We are merely putting patches on a ship which will be a little worse next year and the year thereafter. I think we should leave this matter to the people who are paid to do this job, and to the ones who are affected.

MR. FULTON: I am not going to comment on the letter which has now been tabled. The reading of it was done by Mr. Gordon. But I think it does raise one question which is important to have answered, if Mr. Gordon is able or willing to answer it and that question is: am I to take it from the letter—and I listened carefully to it—that the successful outcome of negotiations now under way depends upon the institution of this over-all contributory old age pension without a means test? Is that the inference we are to draw from the letter?

MR. GORDON: No, it does not necessarily follow. It says:

It would be appreciated if we could continue the present negotiations to a conclusion along the lines on which we are working.

If the conclusions reached are not satisfactory we will then hope to have the privilege of calling on your good selves and all our other friends in the House for such assistance as is necessary to reach a satisfactory solution of our problem.

Mr. FULTON: No. There was an earlier passage in the letter which made reference to the outcome of the negotiations, by the institution of a proposed national contributory old age pension.

Mr. GORDON: I shall read that paragraph again:

One of our prime objects is to improve the status of those who are now on pension and we have reached tentative agreement on what can be done to improve their situation but our plan is dependent to a great degree on the action of the government in regard to the institution of an old age pension at age 70 without a means test, and we earnestly solicit your continued support of that project.

The real difficulty lies in the case of those between the age of 65 and 70 years. That is the group of pensioners who are in receipt of the minimum of \$25 a month.

At the age of 70, if this old age pension should go through, they will become entitled according to present rates to around \$40 a month plus the pension of \$25. So, at the age of 70 years, assuming that the old age pension plan comes in, they will get \$65 a month.

We have a plan whereby if we take the cost of the \$25 pension for life on an actuarial basis, that money should provide an annuity or provide an amount between the age of 65 and 70 which would equal what they would get at the age of 70.

Mr. FULTON: I have not been able to gather from your answer whether the plans now under review or under negotiation, the details of which I do not want to bring up because of the letter—but would the successful working out of that scheme depend in whole or in part upon the implementation of the national contributory pension scheme without a means test?

Mr. GORDON: I cannot comment on that. I am simply saying that the old age pension at the age of 70—that our plan is based on the idea that there will be some form of governmental old age pension payable at the age of 70.

Mr. FULTON: Without a means test?

Mr. GORDON: Without a means test.

Mr. FULTON: That is the statement or the information that I wanted.

Mr. GILLIS: That is the policy of most industries today in this country.

Mr. GORDON: It is the people who are on pension that I am talking of now.

Mr. FULTON: So the only part of your plan affected is the part which might cover people presently on pension?

Mr. GORDON: That is right, in that particular area. Now the general revision of the situation they occupy between sixty-five and seventy will also be dealt with.

The CHAIRMAN: Any further questions?

Mr. FULTON: I have about three. They are just short questions. Is it a fact that the Canadian Pacific had increased recently its pensions to its already retired employees?

Mr. GORDON: That is another one of those things with respect to which we have to answer yes and no. They did not actually increase the pension to them but they did make an arrangement for an additional sum. Mr. Cooper has the details.

Mr. COOPER: The Canadian Pacific Railway recently announced an increase in minimum pensions. For those who had retired prior to 1951 the minimum pension became \$35 a month; if they retire in the six months January to June 1951, the minimum pension is to be \$40 a month; if they retire in the second half of 1951 the minimum pension is to be \$50 a month; if they retire after December 31, 1951, the minimum pension is to be \$60 a month.

Now, the figures I have given relate to contributing members of the Canadian Pacific pension plan. Comparisons are made between the Canadian National and Canadian Pacific and generally the comparison is between a non-contributor of the Canadian National against a contributor of the Canadian Pacific and when that is done you are not comparing like with like; you will not get a correct comparison by that method.

If you compare a non-contributor of both the Canadian Pacific and Canadian National or compare a contributor of the Canadian National with a contributor of the Canadian Pacific then, as the president said, in the lower brackets at any rate the Canadian National pension is at least as good as that of the Canadian Pacific as of today. Further they require five years more service than we do.

Mr. FULTON: I was not questioning that statement, Mr. Cooper, although I am glad to have your further remarks, but I just wanted to have it established for the record whether or not the Canadian Pacific did in fact increase the pension to already retired employees and I take it from your answer that they did.

Mr. COOPER: They did.

Mr. FULTON: Could you tell me, if you have it readily available, what is the total number of retired employees of the Canadian National and the amalgamated railways now on pension?

Mr. COOPER: 16,425.

Mr. FULTON: There was one other statement which Mr. Gordon made, if I remember it correctly, in which he said that the Canadian National pension payments were more generous, but I think one could ask for a clarification of that by way of another question: The actual contribution made from the Canadian National Railways towards its pension fund is not as substantial,—it may be ample,—as that amount contributed by the Canadian Pacific Railway from company funds.

Mr. COOPER: I do not think we could answer that.

Mr. FULTON: The Canadian National report shows on page 29. pensions \$11,802,098.

Mr. GORDON: Again that is a question that we are not comparing like with like. We are not comparing the same things. The figure which we charged into our accounts represents—we charged, in 1950, our accounts with \$12,086,472 but that represents the cost of the pensions which have become in contract form.

Now, I am not sure how the Canadian Pacific Railway do it, but my impression is that they contribute to a pension fund, we do not. We take the pension contracts as they fall due, and we take the money which the employees contributed and the amount which the company has contributed on his behalf and the gross amount of that money is used to purchase an annuity, and then we charge to the company accounts the total amount of the company's contributions which belong to that particular contract.

Mr. FULTON: I was not asking at the moment for comparison of what the pensioners received. What I am trying to make is a comparison between what the company has to pay per man on pension by way of contribution to pensions.

Mr. GORDON: That varies again because the Canadian Pacific Railway have a compulsory contributory plan and we have not. We give an employee the option of contributing during his period of service as from the institution of this fund which was in January 1935. As from the time this plan went into operation an employee of the Canadian National Railways was entitled to contribute up to ten per cent of his earnings for pension or superannuation purposes.

Now, the company agrees to match contributions up to five per cent so that it is a fluctuating figure. It is not a company's decision. One man may decide to contribute one per cent, another man two per cent, three or four per cent, whereas in the case of the Canadian Pacific it is a compulsory contribution and therefore I think their contributions per man would tend to look higher than ours.

Mr. FULTON: I have the figures with regard to the number of pensioners of the Canadian Pacific Railway, numbering 11,208, and pension expense to the company for the year amounted to \$11 million. You tell me you have 16,000 in round figures on pension, and your cost of pension plan to the company was \$12 million.

Mr. GORDON: I will ask Mr. Cooper again to answer that because we are getting into technicalities here again, and we are not comparing like with like.

Mr. COOPER: You must read the whole paragraph carefully to understand the Canadian Pacific Railway situation. They say, "pension expense for the year amounted to \$11 million. This included the proportion of pension allowances made by your company" (the Canadian Pacific Railway).—That means a payment to men already on pension.—Then they say "its contributions to the pension trust fund",—that is a provision for people who have not yet reached pension status—"and also taxes imposed in respect of the employees covered by the United States Railroad Retirement Act". The figures we have used first of all do not include anything we pay into the United States Railroad Retirement Fund, and we pay a great deal more than the Canadian Pacific. But we are not paying into our pension trust fund any amount with respect to employees still in service, whereas the Canadian Pacific is, and my understanding is that a considerable amount out of the \$11 million is a payment by the Canadian Pacific Railway into the trust fund for employees still in the service, so that you cannot correlate their \$11 million covering 11,000 employees, to our \$12 million covering 16,000 employees and say that the Canadian Pacific Railway is doing better than we are. They are charging expenses with pension costs, both for the past as well as for the present, but we only charge for past service.

Mr. FULTON: I do not say they were paying more to their pensioners but I was just suggesting—

Mr. GORDON: They are taking more out of the company funds, that is what you are suggesting, Mr. Fulton?

Mr. FULTON: Yes.

Mr. GORDON: The Canadian Pacific Railway is adopting a different procedure in the handling of its pension finances. When they refer to their pension expense they include an annual charge to expenses on an actuarial basis for pensions which are contingent, for pensions which will one day have to be paid as men reach the retiring age.

Now, that is the essential difference between the Canadian Pacific Railway and ourselves. The expense that we charged in our annual operating expense includes nothing for the actuarial cost of pensions still to come. We meet that as they mature, so that apparently our annual expense may appear to be lower with reference to total pensioners than the Canadian Pacific Railway but our accounts do not reflect what might be called the contingent liability with respect to people who have not gone on pension.

The CHAIRMAN: Could you give us that contingent liability?

Mr. GORDON: It is quite impossible to do without an actuarial examination which would take months.

Mr. FULTON: Your present plan in contemplation would be to place your pensioner on an actuarial basis, Mr. Gordon?

Mr. GORDON: That is one of the many considerations. Once we get on to a contributory plan we would. Our present plan is what we call a money purchase plan. In other words, we buy an annuity out of the amount of money which is accumulated for the pensioners. If we go under a contributory pension plan the chances are that it will have to become a fixed benefit plan so to speak where the benefits are outlined and the company underwrites whatever additional costs there may be over and above the contributions made by the employee.

Mr. FULTON: Without saying that the benefits would be equal to the general scheme what plan would be comparable to that in effect on the Canadian Pacific Railway?

Mr. GORDON: I cannot tell you anything as I have not made the comparison but I have not got my pension fund committee's official recommendation.

The CHAIRMAN: I believe we have now concluded the letter of transmittal and at 8.00 o'clock—

Mr. FULTON: There is at least one question I want to ask.

The CHAIRMAN: I will not declare the report carried until the budget items are dealt with in the event that anything is overlooked.

EVENING SESSION

The CHAIRMAN: Gentlemen, we have a quorum. You have before you the budget.

CANADIAN NATIONAL RAILWAYS SUMMARY OF FINANCIAL REQUIREMENTS—YEAR 1951

	1950 Budget:	1950 Actual:	1951 Budget:	Details on Page
OPERATING BUDGET	\$	\$	\$	
Deficit.....	32,236,000	3,261,236	20,997,000	2
CAPITAL BUDGET	\$	\$	\$	
Additions and Betterments.....	30,872,059	16,579,612	37,302,823	3 and 3-A
New Equipment.....	10,698,430	6,387,675	15,722,177	4
Barraute Branch Line.....	230,000	79,664	—	—
Acquisition of Securities.....	717,000	463,268	3,712,000	5
	42,517,489	23,510,219	56,737,000	
Less amounts available from reserves for depreciation and debt discount amortization.	17,935,000	16,598,230	16,522,000	
Total—Capital Budget.....	24,582,489	6,911,989	40,215,000	
Additional Working Capital.....	—	—	\$ 20,000,000	

New Equipment to be financed in 1951 is estimated at \$56,722,177, of which \$41,000,000 will be covered by a proposed equipment trust issue, leaving the balance of \$15,722,177 to be provided under the Canadian National Railways Financing and Guarantee Act, 1951.

CANADIAN NATIONAL RAILWAYS

OPERATING BUDGET

	1950 Budget:	1950 Actual:	1951 Budget:
	\$	\$	\$
Operating Revenues.....	516,764,000	553,831,581	588,600,000
Operating Expenses.....	482,500,000	493,997,079	543,750,000
Net Operating Revenues.....	34,264,000	59,834,502	44,850,000
Net Income Charges, excluding Interest.....	20,753,000	17,417,730	19,837,000
Interest on Funded Debt—Public.....	24,088,000	24,019,158	24,117,000
Interest on Government Loans.....	21,659,000	21,658,850	21,893,000
Deficit.....	32,236,000	3,261,236	20,997,000

NOTE.—The 1951 Budget includes \$3,339,000 for contribution to the deficit of the I.C.R. and P.E.I. Provident Fund also \$100,000 for contribution to the Grand Trunk Superannuation Fund Association.

The 1951 Budget does not provide for any additional revenue which may result from the hearings now before the Board of Transport Commissioners and the Interstate Commerce Commission in respect of increased freight rates. Neither does it make any provision for increased wages for employees in the so-called "running trades".

CANADIAN NATIONAL RAILWAYS

ADDITIONS AND BETTERMENTS AND NEW EQUIPMENT

	1950 Budget	1950 Budget	1951 Budget
	\$	\$	\$
ADDITIONS AND BETTERMENTS—(Details on Page 3A)—			
Atlantic Region.....	3,019,634	2,102,583	4,580,868
Central Region.....	10,447,799	4,392,618	18,519,722
Western Region.....	7,385,944	5,076,391	11,779,205
Grand Trunk Western Railroad.....	2,958,810	1,086,227	5,708,873
Central Vermont Railway.....	350,790	94,605	377,096
Subsidiary Companies.....	297,909	Cr. 324,901	285,149
Express, Communications and Other Departments..	9,205,394	5,091,298	12,961,576
Additions and Betterments to Equipment, Canada..	5,977,779	4,015,992	6,006,106
Equipment Retirements.....	Cr. 3,771,980	Cr. 4,955,201	Cr. 5,515,772
	35,872,059	* 16,579,612	54,702,823
<i>Less—</i> Portion of projects included in the above re- quirements not physically completed by the end of the year.....	5,000,000		17,400,000
Total—Additions and Betterments—Net.	30,872,059	16,579,612	37,302,823
NEW EQUIPMENT (Details on Page 4)—			
<i>1950 Programme—</i>	1950 Budget	1950 Actual	
Revenue Equipment	34,751,400	\$18,076,572	
Less Trust Series “V”.....	26,000,000	13,500,000	
	8,751,400	4,576,572	
Miscellaneous Equipment.....	1,947,030	1,811,013	
	\$10,698,430	\$ 6,387,675	
	10,698,430	6,387,675	
<i>1951 Programme—</i>	1951 Budget		
Revenue Equipment.....	\$54,868,280		
Less Proposed Trust Series “W”..	41,000,000		
	13,868,280		
Miscellaneous Equipment.....	1,853,897		
	\$ 15,722,177		
			15,722,177
Total—New Equipment.....	10,698,430	6,387,675	15,722,177
EXPENDITURES FINANCED THROUGH EQUIPMENT TRUSTS—			
Trust Issues:		1950	1951
Series “U”.....		\$	\$
Proposed 1951 Trust Series “W”.....		14,975,105	
			41,000,000

CANADIAN NATIONAL RAILWAYS

ADDITIONS AND BETTERMENTS—YEAR 1951

[illegible]

CANADIAN NATIONAL RAILWAYS SYSTEM

NEW EQUIPMENT

CANADIAN NATIONAL RAILWAYS SYSTEM—

1951 Programme—

28	Standard baggage cars
5000	Box cars
500	Refrigerators
500	Box cars (G.T.W.)
40	Box cars (Newfoundland)
100	Flat cars (Newfoundland)
20	3000-3200 H.P. road diesel locomotives
6	Road diesel locomotives (Newfoundland)

Total cost, including Sales Tax and inspection charges.....	\$ 54,868,280	
Less amount of proposed Equipment Trust Issue.....	41,000,000	\$ 13,868,280

MISCELLANEOUS EQUIPMENT—

4	Russell snow plows, single track, steel, with flangers and ice diggers
1	Wrecking crane, 200 tons capacity, diesel-operated, self-propelled
30	Air dump cars, Austin-Western type, 30 cu. yd. capacity
75	70-ton Enterprise longitudinal hopper cars for ballast service
1	Scale test car (G.T.W.)
2	Diesel electric cranes, 30-ton capacity, self-propelled
1	16-cylinder engine for diesel units (G.T.W.)
1	Magnet generator flat car
1	50-ton locomotive crane (Newfoundland) { Revote
20	16-cubic yard air dump cars (Newfoundland) { AFE 71/260
17	Water transports (Revote AFE 71/274)
5	Units work equipment (D.W. & P.) (Revote AFE DWP-1026)

Total—Miscellaneous Equipment.....	\$ 1,853,897
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GRAND TOTAL.....	\$ 15,722,177
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CANADIAN NATIONAL RAILWAYS

ACQUISITION OF SECURITIES

	1950 Budget	1950 Actual	1951 Budget
<i>Toronto Terminals Railway—</i> (Joint with Canadian Pacific Railway Co.)— General Additions and Betterments—C.N.R. proportion 50%..	\$ 100,000	\$	\$
<i>Northern Alberta Railways—</i> (Joint with Canadian Pacific Railway Co.)— General Additions and Betterments—C.N.R. proportion 50%..	425,000	150,000	300,000
<i>Shawinigan Falls Terminal Railway Company—</i> (Joint with Canadian Pacific Railway Co.)— Purchase of the Capital Stock, having a par value of \$300,000— C.N.R. proportion 50%.....	.....	62,500	.....
<i>Chicago and Western Indiana Railroad—</i> Advances under agreement of March 1, 1936.....	187,000	250,768	195,000
<i>Atlantic and St. Lawrence Railroad—</i> Purchase of Captial Stock.....	5,000	.....	2,000
<i>New London Northern Railroad Company—</i> Purchase of Capital Stock and redemption of funded debt.....	.....	.....	3,215,000
	717,000	463,268	3,712,000

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

	1950 Budget	1950 Actual	1951 Budget
	\$	\$	\$
OPERATING BUDGET—			
Operating Revenues.....	5,245,000	5,124,200	5,692,582
Operating Expenses.....	5,475,000	5,725,632	6,102,120
Net Operating Deficit.....	230,000	601,432	409,538
Vessel replacement fund earnings.....	120,000	133,128	125,000
Interest requirements on 5%—25-year Bonds due 1955, principal amount \$9,400,000.....	470,000	470,000	470,000
Exchange on U.S. funds.....	49,000		
Interest on Government Notes and Advances.....	91,000	90,463	90,462
Deficit.....	720,000	1,028,767	845,000

The CHAIRMAN: It is not my intention to call individual items on each page but I will call the budget a page at a time and you may ask questions in regard to any items.

Page 1? Shall the page carry?

Mr. CARTER: May we ask general questions on page 1?

The CHAIRMAN: Questions on any item referred to on page 1?

Mr. CARTER: Well, my point is this. I asked earlier in the committee meeting about passenger accommodation on steamships and you said we would take it up on the budget. I would like to know now, and I have been trying to find out, under what particular heading that would come.

The CHAIRMAN: What accommodation?

Mr. CARTER: It is really coastal steamships. Where would we discuss new ferry terminals and that sort of thing?

Mr. GORDON: Under new equipment, when we come to it.

The CHAIRMAN: Shall page 1 carry?

Mr. POULIOT: Before it is carried, may I ask a question of Mr. Dingle. Mr. Dingle, do you expect to have a diesel engine for pilot in the yard of Rivière du Loup this year?

Mr. DINGLE: I would not promise it this year, Mr. Pouliot but we have it definitely in mind.

Mr. POULIOT: Do you expect it early next year?

Mr. DINGLE: I would say in the next two years.

The CHAIRMAN: Shall page 1 carry?

Carried.

Page 2, operating budget?

Carried.

Page 3, new equipment.

Now, Mr. Carter do you wish to ask your questions?

Mr. CARTER: The problem I have in mind was presented last year when I called attention to the coastal service. Now the coastal service in my riding has improved both in frequency and quality except in one section and that section is very poor indeed. I refer to the Placentia Bay service which is a service by a motorboat bought from the Newfoundland government. I have made several representations about this matter and I would like to know if Mr. Gordon can tell us if they have any plans for improving that service during the year?

Mr. GORDON: I can tell you, Mr. Carter, that the question of the coastal service of Newfoundland has been the subject of intense inquiry generally with the C.N.R. officials and the officials of the Maritime Commission. Just before leaving Montreal I received their preliminary report and, on the basis of that report, I will immediately on my return be able to submit to government the sort of improvements which we would recommend and which we would hope would include some additional ships. I have not the details of that as I have not had time to submit it to the government yet. It will come in the 1951 budget but, in the meantime, if the government approves our recommendations no time will be lost taking preliminary steps so that we will not lose time between now and the next budget.

Hon. Mr. CHEVRIER: The 1952 budget?

Mr. GORDON: Yes.

Mr. CARTER: What I am concerned about is this particular part of the service is working a very great hardship. The accommodation is far too little and it is not adequate at all in quality. This constitutes a hardship and I hate to think that as that has been in effect now for a year and a half or nearly two years that it will continue for another year.

Mr. GORDON: I think I must ask you to be reasonable, Mr. Carter. That service had been in effect a great deal longer than two years when we took it over. We have only been operating this service a very short period of time. The design and specification of boats cannot be done overnight. It takes a good deal of time. The survey recommendation has been completed and I assure you no time will be lost as soon as we get the necessary authority to go ahead, but those ships need to be built, and that takes time.

Mr. CARTER: I am sure Mr. Gordon would like to be reasonable too, but I pointed out last year that ships cannot be bought over the counter. Also I would like to correct him on one point. This particular service we are talking about went into effect since Confederation. I refer to the motor ships *Burin*, *Clareville*, and *Codroy*. That service was not in effect prior to Confederation but it is totally inadequate.

Mr. GORDON: That is recognized fully in this report. Our officials and the Maritime Commission have gone into this very fully and there is no doubt about it there is a complaint in regard to the service you mentioned, namely the motor ship *Burin*.

In fact the whole service has been analyzed but the recommendations which we will put forward to the government will definitely have in mind correction of that condition. I am hoping, if the government approves the recommendations I am a little handicapped in saying what the government will approve of and I cannot say myself whether I am prepared to recommend it because I have not thoroughly digested it. It came to my desk on the Saturday before I came here.

However, we now have specific recommendations of the two interested parties whose business it is to examine and to decide upon that service. I assure you from what I have seen of it, from a preliminary examination, assuming this program goes through, much of the complaint which you properly call to our attention will be eliminated.

Mr. CARTER: I just wonder. It would take at least a year even if your plans are approved and then, to get that ship built and commissioned will take at least one year and possibly two years. In the meantime would it not be possible, with a relatively small expenditure of say \$20,000 or \$30,000 to increase the accommodation already on that boat?

Mr. GORDON: That is one of the things already included in our recommendation, I would hope—increased berth and seating accommodation on those vessels. However, these things are very easy to say and very difficult to get. It means having our plans approved by Lloyds, and the Canadian Steamship Inspection Branch, and I may tell you that the inspection service on ships these

days is very, very stringent and it is very, very difficult to get permits and authority to meet an emergency situation—because, in meeting it, we are not necessarily able to live up to the stringent rules and regulations which have been recently imposed on steamship operators as a result of recent disasters that have happened. Included in our recommendation is a proposal, as an interim measure, that we can increase the berth and seating capacity of the ships now in operation.

I would like very much to tell you of our recommendations but I do not think I am in a position to do so until I have submitted them to the government.

HON. MR. CHEVRIER: Further there is no assurance that steel will be available at the time the recommendations are given to us.

MR. CARTER: That is what I want to be sure of. I want to stress the necessity for an interim measure to relieve the hardship that is being experienced.

HON. MR. CHEVRIER: That is exactly what the committee gave consideration to—an interim measure pending the construction of new ships.

MR. CARTER: That does not necessitate much steel, Mr. Chairman?

MR. GORDON: No, but it does necessitate our getting approval for the temporary lifting of the steamship inspection service present regulations which are attached to those particular vessels. There will be difficulty about that, I must warn you. I do not think any official who is charged with the responsibility of imposing the regulations will himself take a chance on giving us authority to violate them. It is just one of those psychological matters you cannot get away from.

However, we are going to make suggestions and proposals but whether we can get them through the responsible officials, or ultimately through the government, I do not know but at least we will point out that there are certain interim measures which might be approved.

MR. CARTER: Does that mean that an extension or building an extra deck of cabins would not be approved on one of those ships?

MR. GORDON: I would say that under present day regulations it is almost impossible to touch an old ship or to increase its accommodation without running smack bang into almost impossible regulations. Perhaps I am overstating that.

HON. MR. CHEVRIER: No, you are not. By virtue of the regulations promulgated following the Kellock Commission inquiry into the *Noronic* disaster, it is quite clear that ships must now meet the new requirements which were tabled in the House last year, and that means that all these rules must be put into effect during the 1951 navigation season. There was some relaxations during the 1950 navigation season because of the fact that certain of the operators could not put all of them into effect; but the steamship inspection branch of my department has been given strict instructions to see that the regulations are carried out.

MR. CARTER: If we are going to encounter all those difficulties, with no assurance at all that we will ever be able to solve the problem because of steel shortage and so forth, would it not be better instead of trying to build ships to purchase them?

MR. GORDON: That has been thoroughly surveyed and I assure you there is nothing overlooked, but those ships are of a very special structure to meet the requirements of the Newfoundland service. It is difficult to get a ship that you can ply in and out of those small coves that you have around your out-ports, as you know. I do not wish to exaggerate the difficulties but we are dealing with ships that are very old—some of them over 50 years old.

MR. CARTER: I know.

Mr. GORDON: You cannot expect any responsible official charged with imposing regulations to just meet without question the enlargement of a ship 50 years old and say: for that particular ship we will not apply the regulations. That is the very one on which he would be suspicious.

Mr. CARTER: I would like to say that nobody is asking for that, and also the ship I am referring to, the motor vessel *Burin*, is not 50 years old but only 15 years old and it has got a good many years of life left. However, it has accommodation for only 8 passengers.

Mr. GORDON: That is right, and that is one where we are hoping we can enlarge the accommodation. We have no reason to fear on that particular ship that we will not be able to make a bargain with the authorities. I am saying only that it is one of the many considerations in our proposal. We will use every effort to get our recommendation through just as smartly as we can, and the program has reached a stage where we are ready to recommend.

Mr. FRASER: Pardon me for butting in, but if you get your proposals in will you still meet the safety regulations that should be applied there?

Hon. Mr. CHEVRIER: We would have to decide that in the steamship inspection branch of Transport.

Mr. FRASER: And you should be very careful about that too.

Hon. Mr. CHEVRIER: We certainly intend to.

Mr. FRASER: If you recommend it being done and afterwards you found out that it was not safe, it would be just too bad.

Mr. GORDON: And even if it is recommended we are still not sure that it will go through, but I am sure that it will not be recommended unless it is considered adequate, because the group who are dealing with it are the officers of the C.N.R. and of the Department of Transport.

Mr. FRASER: You have the safety provisions which must be observed.

The CHAIRMAN: Are there any further questions?

Mr. CARTER: I am not finished yet, Mr. Chairman. I would like to make it as plain as I can that there are difficulties as far as this particular ship is concerned, and with respect to this particular service may I take it that there is reasonable hope that something will be done? Is that right?

Mr. GORDON: I will read you the actual sentence which deals with that point: the railway has a tentative plan for the provision of additional housing accommodation—that means the provision of berths or seats, as the case may be—and we are endeavouring to have Lloyd's and the Canadian Steamship Inspection Service approve these plans. That is where the matter stands at the moment. We have not yet had a reply, but the request is under way.

Mr. CARTER: Well, Mr. Gordon, what do you propose for the future then? You have something in mind I take it?

Mr. GORDON: I have told you already what we propose for the future. What we are going to recommend to the government is a program in regard to these coastal ships which we hope and expect will be a reasonable and adequate service. I do not think that I am divulging too much in saying that that includes the provision of new ships. I cannot say anything more personally because, frankly, this report has just been received, it reached my desk only last Saturday, and it has not been possible to study it and formulate a report or recommendation to the government as yet. I have not had an opportunity myself since Saturday morning to go into the details of it to see whether I am prepared to recommend it to my board of directors and to the government. You may be sure that it is one of the first things I shall tackle when I go back to my office.

Mr. CARTER: What I was going to ask you is this, you have no reserve in case of accident or emergency?

Mr. GORDON: No.

Mr. CARTER: And you have one ship that is 50 years old?

Mr. GORDON: Yes.

Mr. CARTER: And you have another ship which is getting along about the same age?

Mr. GORDON: Yes.

Mr. CARTER: You have one here which is 38 years old?

Mr. GORDON: And another which is 52 years old; and they have not acquired that age since we took them over.

Mr. CARTER: That is obvious. I was going to say, if you can't get steel and if you can't get ships within the next five or six years, what plans have you?

Mr. GORDON: No one has said that we can't get steel. What we point out is that there may be difficulty in getting steel even if we get the program through. I am prepared to press it as a high priority item but I have no way of knowing what effect that would have on the responsible minister and the other officials. It would depend on whether it is felt that this service had a degree of prior priority which ranks at the head of the list. I cannot give you an answer on that until the matter has been submitted. I would say though that I think it is reasonable to expect that we would get a fairly high priority rating on it.

Hon. Mr. CHEVRIER: I would assume that there are other places in Canada in a similar position. There is a proposed ferry between Yarmouth and Boston which received some attention during the last few months; and, again, there is a service on the west coast. The government must look at the whole picture in the light of all the circumstances.

Mr. CARTER: Well, Mr. Chairman, I quite agree with you. I am not familiar with all the problems all across Canada. I am naturally familiar with the ones in my own particular riding, and I have a responsibility with respect to that riding to see that it is presented and to urge that it be met. I quite understand that I am not the only one that has need.

Hon. Mr. CHEVRIER: But, Mr. Carter, let me point out that the main responsibility is with the Canadian National Railways for the services they have taken over, and I can assure you they keep making representations to me and to the government in connection with the services in Newfoundland, as they do with reference to the services elsewhere in Canada; so, please do not get the idea that the responsibility is yours exclusively, it is that of the C.N.R. and of the government as well.

Mr. CARTER: I know that, but there is a difference with respect to Newfoundland. Prior to Confederation this was the responsibility of the Newfoundland government and the people have not yet become familiar with the idea that the Canadian National Railways is not a part of the government, it does not recognize such a distinction.

Mr. GORDON: I would take issue with you on that.

Mr. CARTER: You take issue with me on that?

Mr. GORDON: Oh yes, indeed; just from the reports we have been getting and the things we have had it is apparent there is a very keen awareness in Newfoundland that they are no longer dealing with the Newfoundland government.

Mr. CARTER: I did not say that. You are placing an entirely wrong interpretation on what I said. I said that they did not disassociate the C.N.R. from the government, that they still think of it as a government service. They are not confusing the Newfoundland government with this government.

Mr. GORDON: Then might I ask you a question? In the light of what I have told you is there anything further you think the C.N.R. can do about this particular problem which it is not doing?

Mr. CARTER: Well, yes.

Mr. GORDON: That will be helpful. I ask it in all seriousness. I want you to tell me if there is anything we can do that we are not doing in respect to this particular problem.

Mr. CARTER: I think that, as I have brought to your attention a year ago, this particular ship should have been then examined and the proposal which you are making now should have been made a year ago.

Mr. GORDON: Just one minute now, in respect of that; this is a subsidized service, and the subsidy is a subsidy which has to be recommended by the Maritime Commission. It is therefore necessary that there should be an examination by the Maritime Commission and that Commission has to say what would be a proper program; and it takes time to make a proper analysis and a proper investigation. We could have made a hasty decision last year, but I may say that if we had we would not have recommended as much as we are prepared to recommend today. We have made a proper analysis so now we are in a position to support our request in a much more coherent way on behalf of Newfoundland than we could have done had we made a slipshod approach to it. I do know that all these things do take time and that the officials who have to deal with it have also had to deal with a great many other matters.

Mr. CARTER: I realize that, Mr. Gordon. I pointed out last year that it takes time; and you can't afford to wait a year before you start moving. We need action now. As it stands it will still take at the best three years to get this recommendation through and get these ships into operation. I made a request last year for this thing to be speeded up. I made a trip around my riding on this particular ship last year and I know that people had to sit up all night and they had to sleep on their suitcases; some of them had to go outside on deck so that others could turn around, and some of them slept on deck all night. You wouldn't treat cattle that way and I think I have a right to protest against that. I do not think there is anything more urgent irrespective of what the situation may be anywhere else in Canada. I do not think there is anything more urgent than that.

Mr. GORDON: That is one of our suggestions here. It is only a matter of getting these things in orderly shape so as to find out all the demands that have to be met. We cannot discriminate between one part of the country and another. There are urgent requirements in Newfoundland and I would suggest that they have received very effective consideration already. I would point out to you this matter of the ferry that is being built. It is under construction now for Newfoundland, and that demand has been met even when they have refused to supply steel for other sections of Canada. I am exerting my efforts on their behalf just as strongly as you are doing.

Mr. CARTER: That is entirely the responsibility of the federal government, or the Department of Transport or the Canadian National Railways. I am very pleased, like everyone else in Newfoundland, that we are going to have a new ferry. Whether we need a ferry as big or as expensive as the one you are contemplating is another matter. I am not criticizing that. I think, myself, that this coastal service is more urgent than is this big ferry that is now being built.

Mr. GORDON: Let me assure you that you would not get unified Newfoundland opinion on that either.

Mr. CARTER: I think you would if they knew all the facts.

Mr. GORDON: I remember I had a delegation in my office just a short time ago with regard to the ferry and there was certainly nothing said at that

time which indicated that they were prepared to let any of the type of service you refer to in ahead of the ferry. Let me finish that this way; that the Canadian National Railways are responsible for providing transportation services in Newfoundland and they are as interested in seeing that we remove complaints wherever possible as you are; so they are greatly interested in seeing that we give you the kind of service that will stop these complaints. I do not like to hear these complaints any more than you do, and we have just as great an interest in solving them. So far as I am concerned and so far as the officials of the C.N.R. are concerned, there is no need of urging upon us the necessity of getting something done, of getting a proper program under way. You are complaining about the delay. I am pointing out to you that the delay is working this out in your interest because as a result of a proper examination of the problem we will bring forward a program which is better than would have been brought forward if we had gone after it in a slipshod fashion and just spent a large amount of money. We cannot urge upon the government the expenditure of large sums unless the government feels that we are doing so in a state of responsibility. If I came dashing in to the government and said give us so much so that we can get this done the minister would certainly look at me and say you are a sort of harum scarum sort of fellow, what kind of an investigation have you made; and I would have to say, none. I would not have the courage to face him unless I knew that he had confidence in my recommendations.

Mr. CARTER: I am not blaming you. You are misinterpreting the whole thing. Two years have passed now since confederation, and before we entered confederation this problem was urgent.

The CHAIRMAN: Now, Mr. Carter, I don't want to be unreasonable, but I do think the committee have been very patient. You have made out a strong case. You have got a very favourable answer. Why can't you leave it at that?

Mr. CARTER: I am prepared to leave it at that, but I am not prepared to leave it with that misunderstanding.

The CHAIRMAN: There is no misunderstanding. Every member of the committee understands it; surely, you do.

Mr. CARTER: Now the last remarks that Mr. Gordon made are quite opposite to what I have been trying to say. I don't want to prolong this debate but I would like to keep the record straight.

The CHAIRMAN: Yes. Have you any further questions, Mr. Carter?

Mr. CARTER: I want to ask a question about telegraph services. Is the Canadian National telegraph company building a line from St. John to Grand Bank?

Mr. GORDON: From St. John's to Grand Bank did you say?

Mr. CARTER: Yes, the present line is inadequate.

Mr. GORDON: I do not quite understand your question, you referred to the line from St. John's to Grand Bank?

Mr. CARTER: Yes.

Mr. GORDON: Is that a new line?

Mr. CARTER: Yes. The present line is absolutely inadequate, the line which connects Grand Bank to the main C.N.T. service.

Mr. GORDON: I am afraid that I cannot give you a satisfactory answer to that, there is so much work being done in Newfoundland that I have not had time to keep up with it. I do not know where it stands. We are dealing with the improvement of the services all over Newfoundland. If this has reference to improvements to existing facilities I think the answer is yes, but if you are talking about a new line, I do not know about that.

Mr. CARTER: All I know is that at the present time the present line service is entirely inadequate and I was just wondering whether that was being considered. Then there is another question I wanted to ask you, have you done anything in connection with the F.M. station at Grand Bank? That is the radio telephone circuit which connects us with St. John's and the outside world. I know what the situation was there last year, 1950, that you had not put the service in operation up to that time, and I was wondering what was going to be done during the coming year.

Mr. GORDON: Are you referring now to the connection with Red Rock?

Mr. CARTER: No, this is the F.M. circuit.

Mr. GORDON: Let me read this, does this answer your question? I have this report before me and it says:

To link the Newfoundland network with the dominion's mainland network, Canadian National arranged for circuits between Sydney and the Department of Transport's F.M. station at New Waterford, N.S., also between the department's F.M. station at Table Mountain and our pole line feeding the Newfoundland stations.

Mr. CARTER: Well that may be part of it. But you took over equipment which the Newfoundland government had installed previous to Confederation. That equipment was installed and ready to operate and it was taken over by the Canadian National Telegraphs. It was not however put into operation. I think I got a letter from the minister at one time saying that it was proposed to operate that circuit, but it had not been put in operation during 1950, and I wondered if you planned to put it into operation in 1951.

Mr. GORDON: I must ask you to make your question in the form of a specific one as to a particular point when I shall try to get an answer for you. There is a great deal to this question of F.M. links, and it gets a bit confusing until we know what we are talking about.

The CHAIRMAN: Shall page 3 carry?

Carried.

Page 4. Page 3A gives simply the details.

Mr. THOMAS: Under that heading, Mr. Chairman, I would like to ask Mr. Gordon about the Macdonald Hotel in Edmonton. First, what is proposed to be spent on that during the year? Can he give the committee some idea as to when they expect it to be completed?

Mr. GORDON: You want to know the expenditures this year, and the date of completion. Is that the general idea?

Mr. THOMAS: That is right.

Mr. GORDON: Are you talking about 1950 or 1951?

Mr. THOMAS: No. I mean the expected expenditures in 1951. Have you got the 1950 expenditures there as well?

Mr. GORDON: During 1950 we spent \$916,473. We have awarded a great number of contracts and we expect them to be pretty well completed during the year 1951. Have you got the total of that, Mr. Dingle?

The provision in the 1951 requirements in connection with the Macdonald Hotel is for a total of \$2,583,688. Now, the date of completion—I would not care to tie myself down. Practically all of the contracts, however, have been awarded and a good deal will depend there on the availability of materials and so forth. We do not expect there will be any undue delay.

The CHAIRMAN: Are there any further questions on page 4?

Mr. GORDON: I do not want to convey the impression that it will be finished in 1951. No. With all the contracts which we can properly look after in 1951

awarded, I think we should have the hotel pretty well finished by some time in 1952.

Mr. FRASER: There is another \$1½ million there under hotels. Where is that money to be spent?

Mr. GORDON: Where is that money to be spent?

Mr. FRASER: Yes, that \$4,016,000.

Mr. GORDON: The main item I mentioned earlier is about \$1½ million on the Newfoundland hotel.

Mr. FRASER: That would come under this heading?

Mr. GORDON: Under hotels, yes.

Mr. FRASER: Under highway crossing protection I notice \$999,000. Where is that mostly to be spent? I mean the \$604,000 central region; would that by any chance be in Peterboro?

Mr. GORDON: I can get that for you in just a moment.

Mr. FRASER: I hope so. I wondered if that included the highway crossing between here and Carleton Place. It is a very bad spot. It is on the Trans-Canada Highway.

Hon. Mr. CHEVRIER: Is that the highway crossing protection that you are asking about?

Mr. FRASER: Yes, highway crossing protection.

Mr. GORDON: Carleton Place is the one you mentioned.

Mr. FRASER: Yes, and it is between Carleton Place and Ottawa. It would be on highway 17, I think.

Mr. GORDON: Here it is. The highway crossing protection in the central region covers a number of items. I do not see the Carleton Place one. I do not see a specific item for Carleton Place, if that is what you are asking about.

Mr. FRASER: It would not be under Carleton Place. It would be under No. 17 highway, the Trans-Canada Highway between here and Carleton Place.

Hon. Mr. CHEVRIER: Has an application been made to the board?

Mr. FRASER: I do not know.

Mr. GORDON: It is not included in this budget, no.

The CHAIRMAN: Carried. Page 4?

Carried.

Mr. MACDONNELL: In the equipment trust the cars are ear-marked as security. There is no special ear-marking to pay for the service charges?

Mr. GORDON: It comes out of ordinary revenue.

Mr. FRASER: That magnet generator flat car, is that to pick up metal on the road bed?

Mr. DINGLE: Yes, that is right, as well as for other uses.

Mr. FRASER: That is all that it is for?

Mr. DINGLE: That is what we call an idler car which carries a magnet.

Mr. FRASER: And it picks it up off the right of way?

Mr. DINGLE: It is used for scrap handling, rail, etc.

Mr. FRASER: Have you had any in operation?

Mr. DINGLE: Oh, yes, for years.

Mr. FRASER: Do you pick up much?

Mr. DINGLE: All our own material.

Mr. FRASER: That is what I mean. I wondered if you saved much, because some years ago you used to see men going around the right of way with bags over their shoulders, picking it up.

Mr. DINGLE: We have instructions out that scrap must be picked up regularly.

Mr. KNIGHT: They do not operate it over the Canadian Pacific lines.

The CHAIRMAN: Carried. Page 5?

Carried.

"Acquisition of securities." Page 5.

Mr. GORDON: Yes. On the acquisition of securities the large item there is for the purchase of the New London Northern Railroad Company. That represents a piece of road between Brattleboro, Vermont and New Haven, Connecticut on the Central Vermont Railway. It has been under lease by the Central Vermont Railway ever since 1891. There was a ninety-nine year lease which gave us running rights over that particular railway.

The New London Northern Railroad Company, therefore, is a railroad company only in name. They conducted no operations; and their total asset was this road bed and the facilities there which had been leased to the Central Vermont Railway since 1891 under a ninety-nine year lease.

The lease was a peculiar one in the sense that it was written back in 1891 when no one had the slightest idea that there would be an income tax. The consequence was that included in the lease was an obligation on the lessee, that, in addition to the stipulated rental, we should assume responsibility for all taxes. The result was that when income tax came into operation, the cost of that particular line became very high indeed.

Now we worked it out that if we could acquire that line we could then avoid the obligation to pay income tax because the over-all operation of the Central Vermont Railway showed a deficit. So we worked out the economics of it and we made a proposition to the company which meant that we bought the capital stock of the railway and acquired ownership of it. And we are now in the process of winding up that particular railway altogether. The facilities and road bed will become part of the Central Vermont System.

It shows a very handsome return on our investment by reason of the savings we are able to effect by eliminating both the rental charge and the other taxes which were obligated to us under the lease.

Mr. MACDONNELL: Is the stock of the Central Vermont owned by you?

Mr. GORDON: Oh, yes. The Central Vermont is a wholly-owned subsidiary.

The CHAIRMAN: Are there any questions on page 5?

Mr. MACDONNELL: What about the other items there, Mr. Chairman?

Mr. GORDON: As to the other items, the \$100,000, I think, is self-explanatory; Toronto Terminals Railway. We operate that railway jointly with the Canadian Pacific Railway. There is nothing in the 1951 budget for that item.

As to the \$300,000 in the budget for the Northern Alberta Railways, I may say that the Northern Alberta Railways are owned jointly by the Canadian Pacific and the Canadian National. We finance it jointly, and we share any operating profit or deficit jointly.

Now, in the case of the Chicago and Western Indiana Railroad, that too was owned jointly through our subsidiary, the Grand Trunk Western. The control is in the five companies which share the ownership of that particular company. This amount represents our advances under the ownership agreement, for the particular facilities. It is part of the necessary facilities which the company operates, part of our Grand Trunk Western Railroad.

Now, as to the Atlantic and St. Lawrence Railroad, that is but a petty item.

Mr. MACDONNELL: Do you mean to say that these advances are made on account of a contract to buy?

Mr. GORDON: No, no. It is an ownership by five railroads including the Grand Trunk Western Railroad. This particular payment covers sinking fund payments made to cover the maturity of bonds which are outstanding.

Mr. MACDONNELL: And the title to it rests in those five railroads jointly?

Mr. GORDON: Yes.

Mr. MACDONNELL: And this is our share of the sinking fund?

Mr. GORDON: This is our share of the sinking fund which fell due on the particular issue, which is a 4½ per cent issue due in 1962.

Mr. MACDONNELL: For how much?

Mr. GORDON: \$13,747,000 as at December 31, 1950.

Mr. MACDONNELL: With respect to the Toronto Terminals Railway, that first \$100,000 in the budget—

Mr. GORDON: That is the 1950 budget.

Mr. MACDONNELL: Yes. You budgeted for \$100,000 but the actual is nothing.

Mr. GORDON: Yes, we did not use it.

Mr. MACDONNELL: Do you do much of that?

Mr. GORDON: We have lots of items that we budget for and find we are under-spent for in some cases we do not spend it.

Mr. MACDONNELL: I can understand that happening in a big transaction, but this is a definite and special thing. Why would that happen here?

Mr. GORDON: I do not know. As a matter of fact, the \$100,000 was voted more or less as a contingency item. It was not applied to any specific project. We did not actually carry it forward into any practical project.

Mr. MACDONNELL: Would you say that it was not voted for any specific project?

Mr. GORDON: It was voted as a contingency for the Toronto Terminals Railway.

The CHAIRMAN: Carried.

Mr. FULTON: I appreciate Mr. Gordon's being before this committee and I appreciate that this is the third day now but I make no apology for coming back at Mr. Gordon for not having any item in his budget or having any interest in the acquisition of a pipe line. I have been thinking over what Mr. Gordon told me yesterday. This is probably the last opportunity we shall have to discuss this budget for 1951.

I am very much concerned that this railway—and I dare say the Canadian Pacific is doing the same thing—is not more concerned in acquiring an interest in an oil pipe line. I find nothing in the budget to bear out what Mr. Gordon said yesterday, that an oil pipe line was not a thing which concerned the railway.

With respect, and I mean that, to what you said about the difficulty of a railway company getting into the operation of a pipe line company, nevertheless after consulting the balance sheets of these companies in the States which are concerned with the transportation of oil through pipe lines, one can see that it is a very profitable operation. So I repeat what I said yesterday. You are in the transportation business. You transport oil at the moment among other commodities.

Now, pipe line companies are going to transport oil and they are going to do so. They will have an exclusive right to transport oil if the railways, which are the great carriers in this country, do not interest themselves in the matter. I am not content, as I said before, to see the railway company give up all possibility of entering the pipe line transportation field without registering a protest.

The CHAIRMAN: The protest has been noted, Mr. Fulton.

Mr. FULTON: No, I want to hear more from Mr. Gordon about it.

The CHAIRMAN: He has already answered quite fully. If he wants to say anything more, that is fine, but I do think you have made your point quite fully and the answer has been quite decisive. You have not cited any railway company in the United States, for instance, where they have many pipe lines, you have not referred to any of them being owned and operated by railway companies.

There is the question of supply of oil to the line and what assurance would we have if our Canadian National Railways built pipe lines unless we had the oil fields to feed the pipe lines, what assurance have they that they will be utilized?

Mr. FULTON: I will answer your question in two parts if I may: first, I do not consider we are governed by what they do in the United States and secondly, according to the evidence given the other day before the Railways, Canals and Telegraph Lines Committee, the company which is going to build the pipe lines does not own any oil fields.

The CHAIRMAN: Are there no interlocking shareholders or directorates?

Mr. FULTON: That is what they told us.

Mr. GORDON: In connection with what company?

Mr. FULTON: The Trans-Mountain Company that proposes to build a line from Edmonton to the Pacific coast, through the Yellowhead Pass right alongside your main line except for a diversion from Kamloops to Hope on to the Pacific Coast.

Mr. GORDON: And they are going to do that without any arrangements with the oil companies to take their loads?

Mr. FULTON: They told us they approached the oil companies but had no commitments from them to put the oil through their lines.

Mr. GORDON: I do not think I can add much to my statement of yesterday. I can only repeat that this question of whether the Canadian National Railways can get into the oil pipe line business at this stage, and I emphasize at this stage, has been carefully analyzed by our officers and carefully reviewed by myself and we in our managerial judgment feel we do not care to recommend such a capital expenditure by the government on behalf of the Canadian National Railways. The remnant of the business that is left does not, after analysis respecting the economics of the proposal, make us ready to advance a proposal to the government. That has been our advice to the government and that is what we stand by.

Now, you may say if we had entered this field in its original stages that the benefits of one might have carried the other but as far as we can judge the taking hold of a pipe line through to the west at this stage would not be the kind of business which I would be prepared to recommend to the government.

Hon. Mr. CHEVRIER: May I add to that, Mr. Chairman, that even if the Canadian National Railways had recommended such a proposal to the government I doubt very much whether the government would have given it serious consideration because of the vast amount of capital required at this time and because we think there are far more important things at the moment in the way of equipment, as already pointed out by the president, required by the Canadian National Railways than the construction of a pipe line.

Mr. FULTON: Since the minister has made that remark I might just say with respect to the vast amount of capital required it did not take very much to vote \$65 million for another purpose the other day and with respect to the answer of Mr. Gordon at this stage that the railways would not care to get into it, I would like to say that there is only one pipe line of any major

importance built at the present moment and that is the Interprovincial pipe line from Edmonton to Superior, Wisconsin, so it seems to me that the field is by no means exhausted at all particularly in view of discoveries in Alberta.

However, we have a complete divergence of opinion on that, but I wish to take this opportunity of going out on the limb, if you like, and expressing my regrets that the president and directors of the Canadian National Railways should have arrived at that decision, which I think is an unfortunate decision, from the point of view of the railway and the economy of the country.

Mr. GORDON: I am prepared to be judged by that judgment, Mr. Fulton.

The CHAIRMAN: We have completed the Canadian National Railways budget so I declare the Canadian National Railways report carried.

Mr. FULTON: No, Mr. Chairman, I would like to ask Mr. Gordon a question with regard to the report. Last year, Mr. Gordon, you told us, and I am referring to page 148 of the report of the committee last year that you were undertaking—I will read your remarks:

I may say that I have in mind a pretty careful review of those subsidiary operations to make certain that we are keeping up to date in our outlook, and to see if any of them can be given up. It is a subject which is constantly under review but I intend to take a special look at it as a part of a new managerial review.

At that particular moment we were discussing some of your subsidiary operations and I recall particularly the elevator terminal at the head of the lakes and one or two others that were reported as not being profitable operations. I wonder if you can say anything as a result of your review as to whether it has led to an abandonment or whether it was decided to put more money into them in the expectations that they will become profitable.

Mr. GORDON: The review has been undertaken but we have not completed it, it is still in process. You made particular reference to the elevator operation. We did succeed in working out a very satisfactory leasing arrangement which removed the matter from my mind as being a non-profitable operation. That came as a result of the review in a sense, but to be perfectly honest with you I have not had personally enough time to settle down to the kind of analysis I expected to make last year. I have on my desk waiting some place along the line a series of reports analyzing these different companies and I will have to take them up one by one and deal with them but I am not in a position to report progress at this time.

Mr. FULTON: We can expect this, perhaps, next year?

Mr. GORDON: I hope to have something next year and be able to give some more detailed appreciation of the pros and cons of these particular companies we have referred to. I should mention there that we have a great number of operations under way that we are examining in respect of highway competition and the possibility of working out co-operative arrangements and so forth. It is all part of the review but it is difficult to get any one of them on a specific basis at the present time because it is all in a state of flux. I have no definite decision to report at this time.

Mr. MACDONNELL: I would like to ask one or two questions of Mr. Gordon in connection with the auditor's report. There is quite a long reference to depreciation and maintenance. There is reference to various scales and types of various depreciation that are applied. My question is this: Is Mr. Gordon satisfied that the depreciation which is being charged is fully up to the standard which he with his business experience thinks is satisfactory? In other words, are we acting as prudent managers in respect of depreciation or are we just doing the best we can?

Mr. GORDON: No, I think we are acting as prudent managers on it. We are following pretty much—in fact we are following the same depreciation approach as the major railways in the United States. There is, of course, I suppose you have this in mind, the dilemma that every business is in, that the replacement value of equipment tends to outstrip depreciation but I am not at all satisfied that that necessarily should change one's mind in regard to the amount of depreciation write-offs because that would be writing into the accounting records an opinion as to the price level. The best thing to do is to determine what the accounting practice should be from the depreciation point of view and carry on with it and adjust oneself to the price level in the form of special reserves.

Mr. MACDONNELL: Mr. Gordon is saying we are acting prudently and up to the standard of other railways of this class.

Mr. GORDON: Definitely, yes.

Mr. MACDONNELL: Mr. Gordon referred a moment ago to the problem of highway traffic or words to that effect. Would it be relevant or does Mr. Gordon feel that there is a problem? I take it that perhaps this is not the time to be discussing that?

The CHAIRMAN: We have already had a discussion on that but I am sure Mr. Gordon would not mind repeating it.

Mr. MACDONNELL: I will not press it.

Mr. FULTON: What I was going to say, Mr. Chairman, is that the second to the last paragraph in the letter of transmittal was written before the report of the Royal Commission on Transportation was printed and tabled and it contains these words dealing with the subject of highway competition:

and it is hoped that the Royal Commission report will contribute significantly to this end.

Now, I would say, if I may venture another opinion that the one part of the Royal Commission report which above all others dealt with the problem with velvet gloves was that part dealing with the problem of road-rail competition.

Mr. GORDON: The reason I think, if I may interject, is when you look at it, the Royal Commission did not have authority to deal with that because it was a federal commission and it was outside the terms of reference. They made that statement in their own report that touched on the problem too that they were not in a position to make firm recommendations because it affects matters under provincial jurisdiction.

Mr. FULTON: You have answered part of my question right there, which I give you credit for. I was going to say, your report having been written before the report of the Royal Commission was tabled and as a man who is accustomed to dealing with issues have you any further comment to make in the light of the Royal Commission's report on that problem?

Mr. GORDON: I said here yesterday and publicly just recently I regard the problem of the relationship between highway traffic and railway traffic as the major railway problem of today. I think there is no question about that. As to how to deal with it, my opinions are far less firm but I said yesterday and I repeat that one of the first things we must establish are the facts and there is a great dearth of facts, statistical facts, and all kinds of information as to the kind of competition to which we are subject and methods of meeting it.

Now, we have set up, again repeating, we have started not only in our own organization by having officers making a specific examination of the question as nearly as we can but we have also set up a transport economist in the railway association in the hope and expectation that he will be able to gather together for us the kind of information that is necessary to tackle this problem.

I think there has been a weakness in the railway field in that we have not made an exhaustive study and examination over the years as this problem grew. All I can do with it is deal with it as I found it and, speaking for myself, before I could advance to make suggestions as to the sort of thing that would be a remedy or at least be of help, I think there is a great need to get facts. I think the royal commission was handicapped by that very point—they neither had the facts nor could they get them.

Mr. MACDONNELL: Just one other thing. In view of those very strong words Mr. Gordon has used, just before we leave this point, I would like to ask you, Mr. Chairman—and perhaps the minister would like to say something—if there is anything this committee can usefully advance on what is a tremendously important problem? We are all familiar more or less with the constitutional problems and the limitations or handicaps under which the Turgeon Commission sat.

Now, I suppose the meeting tonight is not exactly in the same position as when the commission was appointed—I mean constitutionally speaking—but, before we pass the report, I would like to ask whether there is anything we could usefully say, any recommendation we could make, any registering of the strong statement which Mr. Gordon has just made, any sending it on—or do you feel Mr. Chairman, that whatever can be done has been done by the expression of opinion?

Hon. Mr. CHEVRIER: May I ask Mr. Macdonnell a question. I hope that he will not take this in any offensive way, but would you be prepared to approve of an amendment to the Railway Act which would include both international and interprovincial regulation over highway transport?

Mr. MACDONNELL: I think I would have to take that as notice of a question.

Mr. FULTON: We would do exactly as the government does and say we have not had time to consider all the implications.

Hon. Mr. CHEVRIER: You want to know what you can usefully do and I ask you whether or not you would be prepared to support that kind of an amendment, which would meet the point Mr. Gordon is raising.

Mr. FULTON: He has not recommended that.

Hon. Mr. CHEVRIER: No, but the royal commission presently has recommended that, and now I am asking Mr. Fulton whether he would be prepared to approve and support an amendment of that nature.

Mr. FULTON: I would like to hear your opinion first—

Hon. Mr. CHEVRIER: I see.

Mr. FRASER: Did not the minister suggest that in one of his speeches one time?

Hon. Mr. CHEVRIER: I may have, yes—and I went much further than that.

Mr. FRASER: I think you did.

Hon. Mr. CHEVRIER: That is why I am putting the question to you three gentlemen. I should perhaps ask Mr. McLure too and—

Mr. FULTON: By no means; but what is the next move? Quite literally, it is a question of what is the next move? Here is the problem. Is the only way to deal with it by bringing highway transportation, some phase of it at any rate, under the jurisdiction of an enlarged Board of Transport Commissioners?

Hon. Mr. CHEVRIER: That is one way of dealing with it but that just deals with a small part of the problem. The other part, the most important part, is the regulation of provincial transportation over which this government has absolutely no jurisdiction.

Mr. FULTON: But let us deal with it one bite at a time. Before we go on to provincial regulations what are the advantages or disadvantages of bringing interprovincial highway transportation under a central control—under the

Board of Transport Commissioners' control? Let me put it this way and perhaps provide an easy way out if you like. Has there been any study given to that question following the report of the royal commission?

Hon. Mr. CHEVRIER: No there has not been for the reason I indicated the other evening.

Mr. FULTON: There has not been time yet?

Hon. Mr. CHEVRIER: That is right.

Mr. FULTON: I think we could leave it to the next sitting of this committee.

Mr. GEORGE: Mr. Chairman, does our current reference give us a chance to discuss the Turgeon report?

Hon. Mr. CHEVRIER: Discuss what?

Mr. GEORGE: Do our terms of reference include the Turgeon report?

Hon. Mr. CHEVRIER: No they do not.

Mr. GEORGE: That is what we are on now.

Hon. Mr. CHEVRIER: I know, and we were on this Turgeon report in the House for two days but I did not want to take the position of attempting to stop members from discussing anything they want to discuss. Certainly to this question that is being brought up now I can add nothing useful other than what I have already said, because I do not know what disposition will be made of that part of the report.

Mr. MACDONNELL: As far as I am concerned I think I am answered.

Mr. FRASER: That is why I never asked a question; I knew I would be out of order.

The CHAIRMAN: It has been moved by Mr. McCulloch that the annual report of the Canadian National Railways and the budget of the Canadian National Railways should carry?

Carried.

We will now take up Canadian National Steamships Limited. Is the committee willing to dispense with the reading by Mr. Gordon of the report and may we put it in the record without reading it?

Mr. FULTON: Which report?

The CHAIRMAN: The report on the Canadian National Steamships. It is moved by Mr. McCulloch that the report of the Canadian National Steamships Limited go into the record without being read.

Mr. FULTON: I do not agree; I am opposed to that. If Mr. Gordon is in bad voice perhaps one of his other officials might read it. It is quite short.

Mr. GORDON:

MONTREAL, MARCH, 10, 1951.

The Honourable LIONEL CHEVRIER, K.C., M.P.,
Minister of Transport,
OTTAWA.

Sir:

The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1950.

The operating results for the year compare with those of the previous year as follows:

	1950	1949	Decrease	
Operating revenues	\$5,124,200	\$6,595,007	\$1,470,807	22.3%
Operating expenses	5,725,632	6,582,608	856,976	13.0%
Operating loss	\$ 601,432	—	—	—
Operating profit	—	\$ 12,399	\$ 613,831	—

Freight revenues amounted to \$3,812,587, showing a decrease of 26.2% due to substantial rate reductions on sugar and flour, which constitute the principal cargoes, and to a reduction of 51,692 tons or 15.6% in the volume of traffic carried.

The reduction in southbound tonnage, amounting to 17.6% reflected primarily the severe drop in Canadian exports to the British West Indies following the imposition of restrictions against purchases from dollar areas. Northbound tonnage declined by 14.6%, partly 'because of a reduction in imports of sugar. Freight rate reductions were necessary to protect traffic against increased competition, particularly from ships under foreign flags.

Unfavourable conditions in the charter market reduced revenues from this source by \$112,189 or 31%.

Passenger revenues showed a slight increase, despite reduced fares and increased competition from airlines both on the major portion of the route and inter-island services. In September, 1950 an agreement was concluded with Trans-Canada Air Lines whereby passengers traveling between Canada and the West Indies receive the benefit of round-trip rates in using the aeroplane one way and the steamship the other. This arrangement should result in increased traffic for both Companies in the coming year.

The reduction of 13% in operating expenses reflects the lower volume of freight handled, and the reduction in the number of voyages completed from 65 in 1949 to 63 in 1950. Operating costs were adversely affected by substantially increased handling charges at West Indies ports and increased prices of ships' supplies.

The income statement on page 8 shows an over-all deficit of \$1,028,767 after providing for the payment of interest on bonds and Government advances.

The traffic prospects for 1951 are more encouraging, particularly because of the relaxation of dollar import restrictions contemplated under the "Trade Liberalization Plan" effective January 1st, 1951.

An extensive study is under way on the subject of trade relations between Canada and the British West Indies, with particular attention to the financial position of the Company's steamship services. Pending the results of this examination it is difficult to express a precise opinion about the future of the Company's operations.

The fleet operated during the year consisted of the following vessels, no change having been made during 1950:

	Gross Tonnage	Dead- weight Tonnage
<i>Lady Nelson</i>.....Freight and Passenger	7,380	6,410
<i>Lady Rodney</i>.....Freight and Passenger	8,252	4,665
<i>Canadian Challenger</i>.....Diesel powered and refrigerated	6,745	7,460
<i>Canadian Constructor</i>.....Diesel powered and refrigerated	6,745	7,460
<i>Canadian Cruiser</i>.....Diesel powered and refrigerated	6,745	7,460
<i>Canadian Conqueror</i>.....Non-refrigerated	2,930	4,532
<i>Canadian Highlander</i>.....Non-refrigerated	2,966	4,532
<i>Canadian Leader</i>.....Non-refrigerated	2,930	4,532
<i>Canadian Observer</i>.....Non-refrigerated	2,967	4,532
<i>Canadian Victor</i>.....Non-refrigerated	2,963	4,532
	<u>51,073</u>	<u>56,115</u>

An unfortunate incident occurred on June 23 when the *Canadian Constructor* ran aground on the east coast of Grenada sustaining damage to the ship's hull and cargo. The ship was refloated and after temporary repairs at Grenada returned to Saint John, N.B., where major repairs

were effected, permitting a return to regular service on November 10. A full inquiry was conducted into the circumstances of the accident. The cost of repairs and related expenses were charged to the Self Insurance Fund.

The balance in the Vessel Replacement Fund at the year-end was \$4,313,638 and in the Self Insurance Fund \$1,772,458.

During the year the Company enjoyed harmonious relations with the employees, whose loyal and effective services merit acknowledgment in this Report.

For the Board of Directors,

D. GORDON,

President.

CONSOLIDATED BALANCE SHEET

At 31st December, 1950

ASSETS		LIABILITIES	
INVESTMENTS:		CAPITAL STOCK:	
Vessels	\$9,844,445	Authorized and issued 400 Shares of \$100 each	\$ 40,000
Less Accrued Depreciation	5,208,083		
	<u>\$4,636,362</u>		
Vessel Replacement Fund	4,313,638		
	<u>\$ 713,418</u>		
CURRENT ASSETS:			
Cash in Banks	\$713,418		9,400,000
Special Deposits	4,850		3,618,505
Accounts Receivable	83,441		
Freight, Passenger and Agency Balances....	100,627		
Government of Canada—due on Deficit Account	362,421		
Inventories	23,178		
Advances to Captains, Crews, etc	30,320		1,057,137
Due from Insurance and Replacement Funds	72,835		
	<u>1,391,090</u>		
UNADJUSTED DEBITS			1,772,458
INSURANCE FUND	116,047		3,618,505
DISCOUNT ON CAPITAL STOCK	1,772,458		
	<u>40,000</u>		
	<u>\$12,269,595</u>		<u>\$12,269,595</u>

NOTE:—A reserve has been provided for pension contracts in force under the C.N.R. 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1950. We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships at the 31st December, 1950, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1950, are correctly stated. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10th March, 1951.

CONSOLIDATED INCOME ACCOUNT

OPERATING REVENUES:

	1950	1949
Freight	\$3,812,587	\$5,172,073
Passenger	911,352	904,216
Miscellaneous	45,684	55,760
Subsidies	103,031	99,224
Charter	251,546	363,734
Total	<u>\$5,124,200</u>	<u>\$6,595,007</u>

OPERATING EXPENSES:

Voyage Accounts	\$4,985,802	\$5,763,667
Lay-up Expenses	52,027	34,834
Depreciation on Vessels	371,699	492,222
Management and Office Expenses	226,096	229,950
Pensions	25,116	6,272
Other Expenses	64,892	55,663
Total	<u>\$5,725,632</u>	<u>\$6,582,608</u>
Operating Profit or Loss	<u>\$ 601,432</u>	<u>\$ 12,399</u>
Vessel Replacement Fund Earnings	\$ 133,127	\$ 104,514
Interest on Bonds held by Public	470,000	470,000
Interest on Government advances	90,462	90,961
Exchange on U.S. Funds		16,450
Income Deficit	<u>\$1,028,767</u>	<u>\$ 460,498</u>

CONSOLIDATED PROFIT AND LOSS ACCOUNT

At 31st December, 1950

Balance at 31st December, 1949—Deficit	\$3,618,505
The Income Deficit for the year was assumed by the Government of Canada	—
Balance at 31st December, 1950—Deficit	<u>\$3,618,505</u>

Mr. FRASER: I would like to ask a question, Mr. Chairman. Are the crews of those ships screened as they are going to be on the Great Lakes?

Mr. GORDON: There has been no action taken concurrently with what has been done on the Great Lakes up to now, but I may say most of our employees are people who have been with us for a considerable time.

Mr. FRASER: I understand that.

Mr. GORDON: We have taken no specific action up to now.

Mr. CAVERS: May I ask what the decision of the court of inquiry was on the circumstances surrounding the accident?

Mr. GORDON: It was, generally speaking, that the captain and one of the mates—I have forgotten whether the second or third mate—on duty at the time were jointly responsible for negligence, that they had not kept a proper lookout; that they were off their course; and that the proper safeguards, proper navigational safeguards, had not been fully observed.

Mr. FULTON: What action was taken following that finding?

Mr. GORDON: The captain was removed from command; the second officer, I may say was the one I was thinking of.

The captain was removed from his command and I am looking for what was offered to him. My recollection is that we offered him a job as mate on one of the ships but he decided not to take it. Also it was ruled that the captain and the second officer who were jointly responsible should not serve together on the same ship.

Here is the item I want: The captain . . . refused to accept demotion to chief officer of one of our cargo vessels and has indicated that he intends to resign and seek employment elsewhere.

(Statement off the record.)

Mr. FRASER: May I ask you a question on the second paragraph on page 5: "An extensive study is under way on the subject of trade relations between Canada and the British West Indies, with particular attention to the financial position of the Company's steamship services. Pending the results of this examination it is difficult to express a precise opinion about the future of the Company's operations."

Mr. GORDON: That is all very involved and it is now under study.

Mr. FRASER: But you are making some progress on it?

Mr. GORDON: Yes, they are, but I do not know just how much. It keeps coming up in my diary over and over again and I am informed that we will have a report soon.

Mr. FULTON: Last year Mr. Gordon you made a very accurate prognostication.

The CHAIRMAN: What did you say?

Mr. FULTON: On page 243—you said, "In regards to passenger traffic it is not expected that 1950 will be as good as 1949." I am sorry, Mr. Chairman, I had not intended to be sarcastic, but I had formed the impression from the reading of the report of the committee of last year that Mr. Gordon did prognosticate the results for the year under review, for 1950; that they would not be as high as 1949, and that is amply borne out by the report we have before us. As I recall it, by the written report for last year, on pages 242 to 246 inclusive, a large part of the examination related to the profits or otherwise which might be earned by the Canadian National West Indies Steamships, and that they would depend in large part upon a treaty between the government and the West Indies.

The CHAIRMAN: What pages?

Mr. FULTON: On pages 242 to 246 inclusive. Reading from the bottom of page 242 I asked this question:

Last year the committee discussed this question generally and Mr. Vaughan made a report which will be found in the proceedings of the committee of last year and he made this comment with respect to the treaty agreement, he was referring to the decline in the volume of traffic and the fact that the subsidies should not cover the loss which the company was incurring. He said (this will be found on page 127):

The advances in question did not represent additional capital investment in the enterprise nor did they provide assets capable of earning an interest return.

The accounts of the company do not, however, reflect the full financial advantages to Canada of the company's operations. Prior to the inauguration of its services an annual subsidy of \$340,666 had been paid to private operators for service to the eastern group of islands only. Under the 1925 trade agreement Canada undertook to provide certain ship tonnages and services for which tenders were invited from steamship interests. Private interests asked for an annual subsidy of \$582,783 for operation of the eastern services only. No offers were made for the western service. The company was therefore incorporated for the purpose of carrying on both of the services called for in the trade agreement; and on the basis of the above-mentioned tender for part of the service only it is reasonable to assume that Canada has thereby saved a very large sum in subsidy payments.

Then I asked this question:

I wonder if the minister or the management of the company would care to make any statement as to whether a new treaty has been negotiated or is being negotiated.

To which the minister made the reply:

The question of the treaty depends upon a department other than the Department of Transport; I refer to the Department of Trade and Commerce. I do understand that it was the intention of Canada and some of the Caribbean countries to meet and discuss terms for a new treaty. Unfortunately, during the war, that was impossible. In the postwar period trade was relatively heavy and it was not necessary to do that. But at the moment I would think that the position is such that perhaps the time has arrived when negotiations should be entered into; but as I say, it is a matter for Trade and Commerce. Other than that I cannot add anything.

Then I went on to say:

Mr. Vaughan expressed the hope last year that in any new agreement which may be negotiated cognizance will be taken of the greatly increased cost of operation by the inclusion of enhanced subsidy provisions, and that it will contain some measure of assurance that the company will continue to obtain a fair share of the available tonnage movement commensurate with the services operated. I was going to ask if the tonnage has declined, and if so is consideration being given to a reduction in the number of trips? I notice that under the treaty arrangements there were to be 65 trips a year; is that number to be reduced providing tonnage is not available?

Mr. GORDON: The situation we are in at the moment is that we are keeping up the trips so long as we think we can make something on them at all but our competition is increasing steadily. I have a short statement in regard to the prospects which I shall be glad to read.

Then, in the report that he read he said:

We estimate our total passenger revenue will be in the vicinity of \$800,000.

Estimated freight earnings for the year 1950 are expected to amount to about \$4,313,606.

Let's get back to that statement by the minister with respect to a new trade treaty; I was wondering whether such a treaty had been entered into, and if so what is the result with respect to the company's operations?

Hon. Mr. CHEVRIER: I am not aware that any such treaty has been entered into. All that I am aware of is that we in the Department of Transport have had some negotiations with the Caribbean countries with reference to subsidies and with reference to the payment of subsidies for the service. Beyond that I know, or I have been informed that the Department of Trade and Commerce have not entered into any formal negotiations to amend the present agreement.

Mr. FULTON: Well then, what is going to be done?

Hon. Mr. CHEVRIER: I hardly think there would be much success even if an attempt were made because trade between the Caribbean and Canada is not at its best now and the position there is what it is because of the sterling situation. I doubt very much if this would be an opportune time to negotiate an agreement.

Mr. FULTON: Then I am referring to material immediately below that which I have quoted on the same page to which I have referred, and more particularly to the position which has been taken in past years—that to a large extent these services which were maintained were maintained in order to sustain our prestige in the West Indies and we were reconciled to accepting some loss on the service, which losses will not be overcome until we can work out some kind of a trade treaty. Isn't that the position?

Mr. GORDON: I would like to make a comment there, before the minister replies, if I may speak to that?

Hon. Mr. CHEVRIER: Yes, I wish you would.

Mr. GORDON: I think this situation is one which the Canadian National-West Indies service will have to face, and it will have to be faced this year because ships will have to be purchased anyhow, we are going to have to replace some of them in the reasonably near future. We know that they will have to be replaced, and we know that a recommendation will have to be made this year so we are making as careful a survey as we can to establish all the facts, both in regard to the type that will have to be put into the service, and to determine whether or not we can see any possibility of enlarging the service so as to make it a profitable operation, to see whether we can combine that service with some other service, and a number of factors of that kind. And when we have reached a conclusion it will be my duty to lay before the government exactly what we see in regard to the operation; and then there will have to be a decision taken as to what policy Canada wants to take towards that part of the world. Two things will emerge from that; one is whether or not Canada can persuade certain of the West Indies countries who are to be benefited by this service to contribute to its operation in the form of subsidies, or whether Canada thinks it is sufficiently important for them to provide a subsidized service to that part of the world. Now, that decision will have to be taken and the minister has not yet been provided with the facts on which the government can consider these points. I think that is the way it stands.

Mr. MACDONNELL: I wonder if Mr. Gordon could give us some information as to the result of the operations of this Canada West Indies Steamship Lines over the years.

Mr. GORDON: In the years from 1929 through 1934 and down to date a steady deficit has accumulated. In 1934 it amounted to \$5,039,960.94. In the years 1946, 1947 and 1948 there was repaid from surplus a total of \$1,441,455.20, and at the present time the figure is \$2,618,505; so the only profitable years that I can see from this statement were the years 1946, 1947 and 1948 and those were war-time profit figures.

Mr. MACDONNELL: There is another thing on which I am not clear—

Mr. GORDON: Just a moment, please. We accumulated something else. The figure which I gave you is the figure shown in net results, of the operation, but we have accumulated through those operations other reserves.

Mr. MACDONNELL: Oh yes, I see you have there an insurance reserve fund.

Mr. GORDON: Yes.

Mr. MACDONNELL: Oh yes, that is shown on the balance sheet as the insurance reserve. Now, where do you show this general replacement fund?

Mr. GORDON: Where do we show it?

Mr. MACDONNELL: Yes.

Mr. FULTON: That is shown on page 6.

Mr. GORDON: You will see it on the balance sheet, Mr. Macdonnell. It shows under investments in vessels and in the vessel replacement fund. The total figure there is \$8,950,000.

Mr. FULTON: Mr. Gordon, the fact is that your reduction in earnings as compared to last years forecast is even greater than you anticipated, they declined to an even greater extent than you estimated, while passenger earnings were higher than you estimated. Now, last year we asked you a question with regard to the possibility of increasing freight traffic and my recollection is that you said it would depend largely upon whether you were able to negotiate favourable trade treaties with those countries, and I take it from what you told

us a moment ago, and especially by what the minister said with regard to the fact that we are no longer able to negotiate favourable trade treaties, that the whole service still hangs in the balance.

Mr. GORDON: That is part of the analysis they will have to make when we submit the whole question to the government. It is not only the matter of the trade treaty, about which I am not informed, but it is a question of the extent to which we are able to negotiate with this group of countries, how much they are prepared to contribute to the service in cash. This, again, is a generalisation, but we see no immediate prospect of making this service profitable.

Mr. FULTON: Last year you also told us—I beg your pardon, you did not tell us, I was wrong again there—the previous year's report indicates that representations had been made to the government that if the service is to be continued we should have to have an increase in the amount of their subsidies. Now, the minister told us in the previous year that a subcommittee of the cabinet was established to deal with the problem, that the problem was under consideration by a subcommittee of the cabinet; and I asked the minister a question last year, what was the result of that consideration; and the minister said—I am sorry, I am reading from page 245—

Hon. Mr. CHEVRIER: I am afraid that I cannot add very much to what I said at that time last year, namely, that the government had given the matter consideration. No further consideration has been given since then. And the view taken at the time was that this loan was in an entirely different category from that of the Canadian National.

Then over the page, on page 246 the minister said:

I should not say that it was an adverse decision, and if I created that impression, I should not have done so. It was not an adverse decision. It was a consideration of the subject matter and it was thought that no favourable decision should be taken because of the attitude of the Department of Finance. It was not a declining of the proposal made. That is why I say, in view of the whole question of recapitalization of the Canadian National Railways being before the royal commission I do not think this would be an opportune time to ask them to consider it, because I feel the answer would be: Let us wait for the report.

Now, we have heard the report and I appreciate that there has not been very much time to give consideration to it, but in view of the earning position of the Canadian-West Indies Steamships, I wonder if the minister could tell us whether any further consideration has been given to the matter of an increase in the amount of subsidies granted to the service, or whether any decisions have been reached on that matter.

Hon. Mr. CHEVRIER: I think what Mr. Fulton is reading from clearly indicates that we were considering at the time the abandonment of the interest charges and not the question of particular subsidies.

Mr. FULTON: Oh yes, that is true. I am sorry, I did not make it clear.

Hon. Mr. CHEVRIER: You coupled it with the trade treaty.

Mr. FULTON: No, I mentioned that subject as one of the conditions behind it.

Hon. Mr. CHEVRIER: As you will recall, the interest charges over the years have amounted to \$3,618,000. I must say that the matter is as stated in the report; namely, that until such time as we take action on the capitalization of the Canadian National Railways I do not think it would be possible to deal with this. There is no immediate rush so far as this is concerned because I think if there had been perhaps it would have been necessary to take action on the capitalization of the C.N.R. many years back.

Mr. FULTON: Mr. Gordon said that a decision would have to be faced this year as to whether or not we are to continue the service.

Hon. Mr. CHEVRIER: He did not say that a decision would have to be taken this year as to wiping out of the interest on the \$3 million and six.

Mr. FULTON: That must enter into the question of whether we continue the service because if we continue to pile up a deficit, that will have a bearing on the decision, will it not?

Hon. Mr. CHEVRIER: It will have a bearing, but not such a tremendous bearing as you would seem to think.

Mr. GORDON: The relative order of magnitude is shown in the statement on the last page where you will see a charge headed "Interest on government advances \$90,462", out of a total deficit of over \$1 million.

Mr. FULTON: That is just under one-tenth.

Mr. GORDON: Bearing in mind that the deficit of this operation is voted each year by parliament, I am not sure if you understand that this does not affect the operations of the Canadian National Railways. This deficit is paid quite separately from the Canadian National Railways.

Mr. FULTON: Certainly it is; but I am talking about Canadian National Steamships. We all are. You said you felt a decision should be reached this year or very very soon as to whether or not the service should be continued. In past years it has been submitted by Canadian National Steamships through the management of the Canadian National Railways which is the same, that there should be a remission of this interest charge.

Mr. GORDON: Yes.

Hon. Mr. CHEVRIER: I can tell you right away that the decision which will be taken on the point Mr. Gordon has brought up is an entirely different one from the decision which will be taken on the interest charges. The question of the interest charges is, shall I say, but a drop in the bucket compared with the other.

Mr. FULTON: It has been a drop in the bucket for three years now.

Hon. Mr. CHEVRIER: It has been dropping for more than three years. It has been dropping for many years.

Mr. FULTON: For three years now it has been referred to in the report to this committee. I ask the minister if we are any closer to a decision?

Hon. Mr. CHEVRIER: As I said a moment ago, unfortunately we are not.

Mr. MACDONNELL: What about that special replacement fund of \$4 million and three? Is that just a bookkeeping entry or was it built up out of earnings?

Mr. GORDON: The fund was built up from recoveries from the British Ministry of War Transport, for example, for the loss of the *Lady Somers*, and the loss of the *Lady Hawkins* which was also sunk. We recovered the insurance on that particular ship. The same is true of the *Lady Drake*.

Mr. MACDONNELL: You have answered me. All I wanted to know was if that fund was one which was built up.

Mr. GORDON: It was made up of payments actually made for ships which were lost during the war.

Mr. MOTT: With respect to those two passenger ships, do they just sail to the British West Indies or do they call in at any American ports?

Mr. GORDON: Montreal, Boston, Halifax. They run to Halifax in the winter months and in the summer they go up to Montreal.

Mr. MOTT: Do they call at American ports both in the winter and in the summer?

Mr. GORDON: Both times, during winter and summer, yes.

Mr. MOTT: What about your diesel powered refrigerators, are they paying? Which of the boats is it that is not paying?

Mr. GORDON: We have not got each vessel here on the results.

Mr. MOTT: I just wondered if the diesel powered boats you have were paying more?

Mr. GORDON: The diesel powered boats are certainly our best ones. We keep a record of each voyage rather than the over-all results.

Mr. MOTT: I did not want you to go into the details.

The CHAIRMAN: Carried.

Mr. FULTON: Last year Mr. Gordon said that the government was keeping its eyes open to see if they could dispose of two ships which had been laid up. May I ask if we have had more encouragement since then?

Mr. GORDON: We have changed our mind because of a change in the international situation. We decided to hold on to the boats. I think that both of them are now under charter hire, but we still own them.

Mr. MACDONNELL: What percentage of your insurance do you carry? You have got a self-insurance fund?

Mr. GORDON: We carry that insurance in our self-insurance fund as it stands now. But if the international situation should get worse, we would have to consider it, probably.

Mr. MACDONNELL: You mean that your only protection against loss is that \$1 million and seven?

Mr. GORDON: That is right.

Mr. MACDONNELL: How much would one of those ships cost?

The CHAIRMAN: All the ships are carried in the inventory at \$4 million.

Mr. GORDON: They are all shown there. The grand total actually is \$4 million, but that is net after depreciation. \$4,636,000 as shown in the balance sheet.

The CHAIRMAN: It is 40 per cent of the total value. The insurance fund is 40 per cent of the total value of the ships.

Mr. MACDONNELL: Surely that is a written-down value. It is not a replacement value.

Mr. GORDON: It is not a replacement value, no.

The CHAIRMAN: But it is the amount at which they are carried.

Mr. MACDONNELL: Is Mr. Gordon satisfied with it?

Mr. GORDON: We reviewed the matter just two weeks ago in respect to our insurance fund, and the report of the officers who examined it was that it was adequate.

Mr. FULTON: I am sorry to have to go back to this point, but I would ask Mr. Gordon about the two ships which had been laid up. I think he told me that they had been chartered, that they had changed their decision, and that they had been chartered. You mention in your report that the unfavourable position in the charter market reduced the revenue from this source by as much as 31 per cent. Has there been any change in that situation since the report was written?

Mr. GORDON: I am not up to date on that, but my impression is yes. I think that is the case. But the real change in our decision was that we decided not to sell the ships. We decided, in view of the international situation, that we had better keep our hands on them and use them to the best advantage.

Mr. FULTON: Do you suppose there will be any possibility of your using them to reduce your over-all deficit by increasing the use of the charter system?

Mr. GORDON: We are watching that very closely, and if we can charter them to better advantage than to operate them, we do so. We are watching that all the time.

Mr. FULTON: You really have to balance the two things against each other. You are operating at a deficit, but nevertheless the international situation is such that we cannot lightly make a decision and let the whole thing go.

Mr. GORDON: Some of these ships operate as tramps. They have no recognized routing. They will pick up cargoes as they find them. And in that situation we sometimes find it to be an advantage to charter hire a specific ship, and we watch it on the basis of doing so. We are proceeding on the basis of the best advantage as to earnings.

Mr. FRASER: I notice that your pension item for this year, 1950, amounted to \$25,116; but for 1949 it was only \$6,272. Why the increase? Was there a different policy put into effect?

Mr. GORDON: Yes, and as I explained earlier when talking about the Canadian National, we provide the actual cash value of the pension for the officers who retired during the year. This merely indicates that we had more officers retire in 1950 than we did in 1949.

Mr. FRASER: Thanks.

Mr. GORDON: Or at least those officers receiving a certain pension.

Mr. FRASER: Officers? Would this not also cover the men?

Mr. GORDON: It would cover anybody who was covered by the pension fund. Incidentally, seamen are not in the pension fund.

Mr. FRASER: You say that the seamen are not in the pension fund but I take it that the officers would be. Would the engineers come under the fund?

Mr. GORDON: Yes, the engineers would be in the fund. This is a Canadian National fund we are talking about. They are covered by the Canadian National pension fund, and those are the terms made under the contract for these particular people.

Mr. FRASER: And the engineer would be covered, the first mate, the second mate, and the captain?

Mr. GORDON: Mr. May tells me that generally the line of division is below decks and they are not covered. I mean the seamen; while those above deck are.

Mr. FULTON: I have two questions I would like to ask. One is with reference to a question referred to last year with regard to the possible shipment of apples from the Maritimes to the West Indies. At that time I think Mr. Gordon stated that he would not lightly undertake the installation of any refrigeration in those ships because of the capital cost. But he said that he would look into the potentiality for markets down there, and if he found it to be justified, he would consider the installation of refrigeration. May I ask if any decision has been made?

Mr. GORDON: There has been no success in the matter. My break-down of export tonnage by commodities shows that we handled no apples at all.

Mr. FULTON: You mean that you had no request for apples?

Mr. GORDON: We were not able to develop a market. I might say that our main commodity during 1950 was flour.

Mr. FULTON: Thank you. My other question will be directed to the minister. I wonder if the minister can tell us whether there is any hope for a new trade treaty with the West Indies? Has it been abandoned, or merely postponed for the time being?

Hon. Mr. CHEVRIER: I do not think I can give you much hope of a new agreement being entered into particularly because of the present situation. The last conversation, which was off the record, I had with the Hon. Mr. Howe was pretty much to that effect. It would be difficult to negotiate a new treaty.

Mr. FULTON: We are just hanging on then by the skin of our teeth?

Hon. Mr. CHEVRIER: It is not very hopeful, I must say.

Mr. FRASER: Some of the men below decks have been with the Canadian National West Indies Company for a number of years. Are they protected at all?

Mr. GORDON: It is such a rapidly revolving constituency, so to speak, that it is not the practice in shipping to put that type of labour under pension fund protection.

Mr. FRASER: And they have not asked for it?

Mr. GORDON: It has not been raised to my knowledge.

The CHAIRMAN: Are there any further questions? If not, Mr. McCulloch moves that the annual report of the Canadian National Steamships carry.

Mr. FULTON: I would second that motion.

The CHAIRMAN: All those in favour? Those opposed? The motion is carried, unanimously. Next, we have the annual report of the Canadian National Railways Securities Trust.

Mr. FULTON: Do we not have a separate budget for the Canadian National Steamships?

The CHAIRMAN: Yes, you are right. Thank you, Mr. Fulton. The budget.

Mr. McCULLOCH: I move that the budget be adopted.

The CHAIRMAN: It has been moved that the budget of the Canadian National Steamships be adopted. All those in favour? All those opposed? I declare the motion carried.

Mr. FULTON: Where is it?

The CHAIRMAN: It is on page 6 of the budget papers which you have before you.

Hon. Mr. CHEVRIER: It is the last page of the Canadian National budget.

Mr. FULTON: You anticipate, based on a quick glance at this page, no betterment in trade next year?

Mr. GORDON: Generally speaking, yes. This budget I might say is pretty much of a guess. It is of course an informed guess. I cannot say it is any better than that. Conditions in the trade are very speculative and we just make the best estimate that we can with such knowledge as we have of the traffic and the minimum prospects.

Mr. FULTON: When do you expect to be able to put the proposition to which you referred earlier before the government?

Mr. GORDON: Well, I do not like to make promises unless I am definite about them. But I believe that our report which I inquired about just the other day should be ready in the course of the next month. I have some investigations which are collateral to it, and they may take longer. But I would hope during the course of the next month to have knowledge whereby I would be in position to reach a decision as to what we should put before the government.

Mr. FULTON: That is your recommendation?

Mr. GORDON: I am not so sure that I am prepared to make a recommendation. I think it is one of those cases of exposing the harsh facts and letting somebody else make the decision.

Mr. FULTON: I agree with you there.

The CHAIRMAN: Next is the annual report of the Canadian National Railways Securities Trust. I believe there are no changes since last year. Are there any questions on this?

THE CANADIAN NATIONAL RAILWAYS
SECURITIES TRUST

OTTAWA, 6th March, 1951.

The Honourable Lionel CHEVRIER, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees of The Canadian National Railways Securities Trust submit the following report for the calendar year 1950.*

No capital losses were charged to Proprietor's Equity during the year, and accordingly the book value of the capital stock of the Securities Trust, as shown on the Balance Sheet, remains unchanged from December 31, 1949.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet as at December 31, 1950.

J. C. LESSARD,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST DECEMBER, 1950.

ASSETS		LIABILITIES	
<i>Claims for Principal Loans—</i>		<i>Capital Stock Owned by His Majesty—</i>	
Canadian Northern Railway.....	\$312,334,805.10	5,000,000 shares of no par value capital stock:—Initial stated value.....	\$270,037,437.88
Grand Trunk Railway.....	118,582,182.33		
Grand Trunk Pacific Railway.....	116,006,599.08		
Canadian National Railway Company.....	96,936,971.75	Gain from transactions subsequent to 1st. January, 1937—per contra.....	108,480,697.14
	<u>\$ 643,860,558.26</u>		<u>\$ 378,518,135.02</u>
<i>Claims for Interest on Loans—</i>			
Canadian Northern Railway.....	\$309,702,897.65		
Grand Trunk Railway.....	103,250,802.95		
Grand Trunk Pacific Railway.....	107,326,622.84		
Canadian National Railway Company.....	54,501,313.57		
	<u>574,781,637.01</u>		
<i>Transactions subsequent to 1st. January, 1937, affecting the book value of the capital stock of the Securities Trust—</i>			
Canadian National Railway System:			
	Year 1950		
Surplus Earnings.....	Total to Date		
Capital Gains.....	\$112,502,061.64		
Capital Losses.....	19,106,651.38		
	<u>23,127,015.88</u>		
	108,480,697.14		
<i>Collateral Securities—</i>		Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value.....	948,604,757.39
As per Schedule A.1.....			<u>\$1,327,122,892.41</u>

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1950. There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1950, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

*Notes and Collateral Held

Loans Outstanding

CANADIAN NORTHERN RAILWAY:

3½% Loan, Chapter 6, 1911.....	\$ 2,396,099.68
4% Loan, Chapter 20, 1914.....	5,294,000.02
5% Loan, Chapter 4, 1915.....	10,000,000.00
6% Loan, Chapter 29, 1916.....	15,000,000.00
Temporary Loan, 1918, repaid.....	25,000,000.00
16% Loan, Chapter 24, 1917.....	25,000,000.00
16% Loan, Vote 110, 1918.....	35,000,000.00
16% Loan, Vote 108, 1919.....	44,611,077.00
16% Loan, Vote 127, 1920.....	44,419,806.42
16% Loan, Vote 126, 1921.....	42,800,000.00
16% Loan, Vote 136, 1922.....	1,887,821.16
6% Loan, War Measures Act, 1918.....	56,926,000.82
16% Equipment Loan, Chapter 38, 1918.....	.....
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918.....	.....
†Mortgage covering loans above.....	.....
Total Canadian Northern.....	\$312,334,805.10

GRAND TRUNK RAILWAY:

6% Loan, Vote 478, 1920.....	\$ 25,000,000.00
6% Loan, Vote 126, 1921.....	55,293,435.18
6% Loan, Vote 137, 1922.....	23,288,747.15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans.....	.....
Total Grand Trunk.....	\$118,582,182.33

GRAND TRUNK PACIFIC RAILWAY:

3% Bonds, Chapter 24, 1943.....	\$ 33,048,000.00
6% Loan, Chapter 4, 1915.....	6,000,000.00
6% Loan, Vote 441, 1916.....	7,081,783.45
6% Loan, Vote 444, 1917.....	5,038,053.72
6% Loan, Vote 110, 1918.....	7,471,399.93
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162.35
Interest guaranteed by Government of Canada.....	8,704,662.65
Interest guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536.98
Agreement with Government under Chapter 71, 1903.....	.....
Total Grand Trunk Pacific.....	\$116,006,599.08

RAILWAYS AND SHIPPING

None. Charge is on premises mortgaged October 4, 1911.

None.

None.

Mortgages dated June 23 and June 26, 1916.

6% Demand Notes..... \$ 497,566.80 |

6% Demand Notes..... 33,012,414.32 |

6% Demand Notes..... 27,203,003.65 |

6% Demand Notes..... 40,031,122.27 |

6% Demand Notes..... 53,008,779.65 |

6% Demand Notes..... 50,259,312.47 |

6% Demand Notes..... 46,691,634.60 |

6% Demand Note..... 5,700,000.00 |

3½% and 4½% Debenture Stocks..... 7,139,399.99 |

6% Demand Notes..... 56,858,496.44 |

Miscellaneous Bonds and Debentures..... 14,097,470.59 |

Miscellaneous Bonds and Debentures..... 20,721,191.12 |

Mortgage dated November 16, 1917..... |

6% Demand Notes.....	\$ 25,479,226.97
6% Demand Notes.....	56,646,816.12
6% Demand Notes.....	23,288,747.15
4% Demand Note.....	15,000,000.00
4% G.T.P. Debentures.....	15,000,000.00
4% Debenture Stock.....	60,801,700.00
6% 2nd Mortgage Equipment Bonds.....	1,693,113.33

3% 1st Mortgage Bonds.....	\$ 33,048,000.00
4% Sterling Bonds.....	7,499,952.00
Mortgage, June 28, 1916.....	.....
Mortgage, October 18, 1917.....	.....
Mortgage, October 18, 1917.....	53,339,162.74
Receiver's Certificates.....	8,698,170.42
Cremation Certificates, coupons destroyed.....	2,925,723.88
Cremation Certificates, coupons destroyed.....	2,999,000.00
Grand Trunk Pacific Development Company Capital Stock.....	.....

forward

SCHEDULE A.1—Concluded

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding

CANADIAN NATIONAL RAILWAY COMPANY:

6% Loan, Vote 139, 1923.....	\$ 24,550,000.00	{ 6% Canadian Northern Demand Note.....	\$ 12,655,019.57
		{ G.T.P. Receiver's Certificates.....	3,313,530.01
		{ G.T.P. Interest Coupons.....	1,530,831.96
5% Loan, Vote 137, 1924.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	1,318,315.86
		{ G.T.P. Receiver's Certificates.....	4,691,173.58
		{ G.T.P. Interest Coupons.....	1,530,822.24
5% Loan, Vote 377, 1925.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,496,718.21
		{ G.T.P. Receiver's Certificates.....	1,422,425.17
		{ G.T.P. Interest Coupons.....	1,530,802.80
5% Loan, Vote 372, 1926.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,062,624.30
		{ G.T.P. Receiver's Certificates.....	364,898.78
		{ G.T.P. Interest Coupons.....	1,530,880.56
5% Loan, Vote 336, 1929.....	2,932,652.91	5% Canadian National Railway Company Demand Notes....	2,932,652.91
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400.85	5% and 5½% Canadian National Railway Company Demand Notes....	29,910,400.85
5½% Loans, Chapter 6, 1932.....	11,210,815.56	5½% Canadian National Railway Company Demand Notes....	11,210,815.56
Temporary Loan, 1930, repaid.....	.....	{ 166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad.....	4,171,940.94
Less: adjustment authorized by the Capital Revision Act, 1937.....	Cr. 1,666,897.57	5% 1st and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.....	8,609,000.00
Total Canadian National Railway Company.....	\$ 96,936,971.75		
Total Loans.....	\$643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Mr. MACDONNELL: What useful purpose does this serve?

Mr. GORDON: I think that the Royal Commission has given the answer to that and it is part of their recommendation that it should be eliminated from the balance sheet of the Canadian National Railways. There has been no change in this report as between this year and last year except that the date is changed from 1949 to 1950.

The CHAIRMAN: It is moved by Mr. McCulloch that the annual report of the Canadian National Railways Securities Trust carry.

Carried.

Before we adjourn, Mr. Gordon has an answer for Mr. Macdonnell and I believe one or two other answers that I would rather have completed tonight.

Mr. GORDON: I think I can do that in a general way here. One question was in connection with, I think it was Mr. Fulton who asked as to where the Board of Transport Commissioners stood with respect to an examination they made on March 15 on the accident records generally and whether they brought in any recommendations. The answer to that is that the board has not made any recommendations yet but we understand that they intend to call in representatives of the various brotherhoods, the various unions, and to have the men themselves make recommendations to the board as to various features which they feel might be incorporated in accident prevention methods, so that the matter is pending and we expect to have that hearing shortly.

The second matter I have here is, I have forgotten who asked me, about the relative prices in respect to fuel oil and coal generally and I have had this worked out on the basis of taking the highest test, namely, the relative efficiency of the Brazeau briquettes as a fuel compared with oil.

Now, the only way to get that is to run tests and this is how it works out. We feel that one ton of briquettes is equal to three and a half barrels of Bunker "C" oil. The price of Bunker "C" oil is \$1.70 per barrel which would mean that the equivalent of one ton of briquettes would cost \$5.95. Brazeau is now out of business temporarily but they will be back in business in July or August. The last price we paid for briquettes was \$7.73 per ton; in other words, \$5.95 for the amount of the oil that I mentioned can be compared with the \$7.73 for briquettes.

Now, that establishes the highest record, so to speak, for coal consumption and the differential between oil and coal would increase as the quality of the coal deteriorated. In other words, the Bunker "C" oil would remain constant in quality and the coal varies all over the place, but if you compare the highest type of coal in a form which gives us the best usage, namely, briquettes, the comparison is \$5.95 for oil as against \$7.73 for briquettes. Does that answer the question?

Mr. GILLIS: Mr. Thomas asked that question but he is not here at the moment.

Mr. GORDON: It is on the record anyhow.

Now, Mr. Macdonnell, I said I would make some more general remarks with respect to our general immigration set-up. Generally speaking, there are three classes of immigrants that are handled, the first are the immigrants which we may drum up ourselves, by direct contact, and we interest them in looking at our lines or coming over our lines to find some place to go and to find work for themselves. We give these people all the information we can. The second type are those who are brought in by federal government or provincial government labour departments who are looking for special types of skills. The third type are those who just want to come out and get along the best they can. Those three classes are again divided up into two classes, namely, those who originate in Europe, and those who originate in the British Isles. Those originating in Europe require to have their passports

visaed by a Canadian official in Europe. That official will always make enquiries to ascertain that the individual immigrants have enough money to see them to their destination and have the intention expressed which would indicate that they are not going to become a charge on the community but are going to be met by some relative or have a job to come to.

In the case of the British they do not need visas but nevertheless if we are handling them we make those enquiries. Now, all classes of immigrants are met at the immigration point in Canada, let us say Halifax, for example. No one is allowed to depart out of the immigration quarters until he is examined by an immigration official who ascertains or satisfies himself that he has enough money to reach his destination or to look after himself and to carry out the intentions that they have declared. At that point we are very much in the picture with them, we provide a service for all these immigrants, we take them to their destinations, we have a person who can speak their language, interview them, they get on board our trains where we have travelling representatives who talk to them and find out what they are doing and we establish that they know what they are doing, and that they are going to be met by somebody, either their relatives or by the representative of whatever government department may have been interested in bringing them here to this country. If we are the interested party we see to it that they are taken to the farm that they may be interested in, look it over, make certain that they know what they are doing and generally keep a pretty paternalistic eye out for them so they do not get into trouble.

That is the way we treat them and we make pretty good friends of these new citizens.

Mr. MACDONNELL: Thank you.

Mr. GILLIS: Mr. Gordon, the immigrants you drum up over there, do you have selection teams in Europe or how do you screen them?

Mr. GORDON: No, we have a very limited staff. What we provide is an information service. We have representatives established in these places and through these contacts they keep in contact with steamship companies. We get leads from the steamship companies with which we are associated and we get in touch with intending immigrants, find out their particular intentions and provide them with a sort of information service.

Mr. GILLIS: The screening over there is done by whom?

Mr. GORDON: I said in the case of Europe it is usually by the immigration officials.

The CHAIRMAN: I might say if the committee is willing to sit for another forty-five minutes, Mr. Gordon is willing and I believe we could clean up the small amount of business remaining. If the committee does not want to do that I am not going to press it. We simply have the auditor's report and the three budget items.

Agreed.

Mr. FRASER: Mr. Chairman, there is the Trans-Canada Air Lines auditor's report in this but we will not be covering that, I mean in the auditor's report.

The CHAIRMAN: We will simply cover the parts that Mr. Gordon is interested in.

We will now consider the auditor's report.

CANADIAN NATIONAL RAILWAY SYSTEM

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1950 under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

GENERAL SCOPE OF AUDIT

In brief, our audit of the System accounts for 1950 included:

- (a) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn were related to Corporate By-Laws, Orders in Council and Acts of Parliament;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, limited to a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the System. In this connection we worked in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures, Securities Held, Material Stores and Accounts Receivable of all types. The System is further protected by Fidelity Bond Insurance with outside Underwriters;
- (d) Audit of the Consolidated Income Account and the Consolidated Balance Sheet and certification thereof.

Our test audit covered the various Balance Sheet accounting units in Canada, the United States, London (England) and Paris (France) with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters which comprise the System as an operating entity.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the Capital Stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In a few instances their accounts were certified by Public Accountants but for the most part they were audited by joint committees composed of System accountants and representatives of outside interests.

CONSOLIDATED INCOME ACCOUNT

Depreciation and Maintenance

In respect of "depreciable" Fixed Properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—provision for depreciation, at rates resulting in a composite rate of approximately 1½%, has been made during the year for the United States Lines of the System through the appropriate Maintenance Accounts in accordance with the above mentioned Order whereas the Canadian Lines have taken up through the Maintenance Accounts provided therefor the loss of service value at the time of replacement or retirement.

Track structure composed of ties, rails, track material and ballast is not classified by the Interstate Commerce Commission as an asset for which provision for Depreciation should be made; accordingly the loss of service value was taken up through Maintenance of Way and Structures accounts at the time of replacement or retirement on both the Canadian and United States Lines of the System.

Provision for Depreciation has been made for the Equipment of both the Canadian and United States Lines of the System. The $3\frac{1}{4}\%$ annual depreciation rate used for Rail Equipment of the Canadian Lines was approximately the same as the latest available composite of the rates used by the Class 1 Railroads in the United States.

In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the Maintenance accounts as a whole included the cost of day-to-day repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

During 1950 the balance of the Deferred Maintenance Reserve was fully utilized by crediting \$9,000,000 to Maintenance of Way and Structures.

We have received certificates from the responsible operating and executive officers to the effect that the Fixed Properties and Equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that in so far as traffic demands would permit, such Physical Retirements, which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such Retirements has been given to the Accounting Department.

Insurance Fund Operations

The operations for the year resulted in a profit of \$85,000 which was credited to Railway Income. The Reserve which was increased during the year by \$600,000 amounts to \$12,835,000 and includes the estimated amount of \$235,000 set aside to meet the larger unadjusted loss claims.

CONSOLIDATED BALANCE SHEET

Assets

Against the Corporate portion of the property investments brought into the National System accounts at the 1st January, 1923, there have been properly applied the reductions authorized by the Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st January, 1923, the Additions and Betterments less Retirements of the System have been shown on the general basis of cost. It should be pointed out, however, that, with the exception of two vessels paid for by the Government of Canada, no value has been placed on the property investments taken over from the Newfoundland Railway as at 1st April, 1949.

The several special funds including Capital and Other Reserve Funds, Insurance Fund and Pension Contract Fund, amounting in total to \$73,563,000 are represented by investments in the securities of the Government of Canada, the National System and securities of or guaranteed by the Provinces, together with cash and sundry current assets. At the year-end System Securities included in these Special Funds were valued at par. Securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to \$56,927,000 were based on cost which exceeded the market value by 1.12%.

The portion of Insurance Fund investments of \$3,876,000 in System Securities, the listings of which were withdrawn from the Exchange as a result of the war-time United Kingdom Vesting Orders, have been taken at par for the purpose of the foregoing year-end market valuation. In view of the fact that these Insurance Fund investments are in System securities no provision has been deemed necessary to cover the devaluation of sterling from the former par of \$4.86 $\frac{2}{3}$.

The par value of National System securities held in the foregoing special funds aggregates \$14,843,000 of which par value \$10,918,000 is covered by the guarantee of the Government of Canada.

Investments in Affiliated Companies are represented by the Capital Stocks, Bonds and obligations for Advances of Companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of unlisted investment is made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the Balance Sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1950 Financial Statements issued by the companies representing the larger investments indicated that profits aggregated some \$1,684,000 and losses some \$353,000 for the year 1950.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and are valued at or below cost. The Balance is represented by securities of the Government of Canada, and the National System (Government Guaranteed), the book figure of which is based on cost and par value respectively. The cost of the securities of the Government of Canada included therein exceeded the market value by .11%.

Temporary Cash Investments are represented by Government and Provincial Securities. At the year-end the book figure, based on cost, exceeded the market value by .31%.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year-end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

No physical inventory of Material and Supplies was taken by the Railway during the year. Material and Supplies of the National System at the 31st December, 1950, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable allowances for condition thereof.

Other Deferred Assets consist principally of Contracts Receivable in connection with Land Sales and Sundry Deferred Accounts Collectable.

Other Unadjusted Debits consists of the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Liabilities

Other Deferred Liabilities consist principally of the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec.

Reserves and Unadjusted Credits

Accrued Depreciation of Canadian Lines Equipment amounts to \$141,889,000. During the year the full ledger value of Equipment retired, less salvage, was charged to this Reserve.

Unadjusted Credits include the estimated proportion of prepaid Revenues on freight in transit; excess of actual Revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Where foreign currencies are involved, the Balance Sheet accounts of the System are converted generally as follows:

- (a) United States Currency
—at the dollar par of exchange.
- (b) Sterling Currency
—at the former par of \$4.86 $\frac{2}{3}$ to the pound.
- (c) French Currency
—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 300 francs to the dollar for Working Capital accounts.

Dollar amounts stated in this Report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

12th. March, 1951.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir,—We have audited the accounts of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1950, acting under your authority, and we now report, through you, to Parliament.

GENERAL SCOPE OF AUDIT

In brief, our audit of the Steamships' accounts for the year 1950 included:

- (a) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn were related to Corporate By-Laws, Orders-in-Council and Acts of Parliament;
- (b) Audit tests in the offices of the Steamships limited to a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the Steamships. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Steamships in the control of Cash Receipts and Expenditures, Securities Held, Material Stores and Accounts Receivable of all types. The Company is further protected by Fidelity Bond Insurance carried with outside Underwriters;
- (d) Audit of the Consolidated Income and Profit and Loss Accounts and the Consolidated Balance Sheet and certification thereof.

CONSOLIDATED INCOME ACCOUNT

Provision for depreciation on vessels was made during the year on the following bases:

- (a) The three diesel powered and refrigerated vessels—5 per cent;
- (b) The two "Lady" vessels and the five non-refrigerated vessels—3 per cent.

In view of the appropriation for additional depreciation in 1949, the rate of 3 per cent per annum in respect of the last mention vessels (b) is considered adequate.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the Accounting Department.

CONSOLIDATED BALANCE SHEET

Assets

Investment in Vessels is carried on the general basis of cost less accrued depreciation.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada) and Province of Ontario together with cash and sundry current assets. The book value of the securities held in these funds based on cost is 1.63 per cent in excess of the year-end market value.

The Replacement Fund increased \$372,000 during the year as a result of depreciation accruals charged to Income Account and paid into the fund.

The Insurance Fund decreased during the year by \$276,000. The insurance risks on all ships are carried in the Fund.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

Discount on Capital Stock represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the Steamships' Bonds.

Insurance Reserve

The Insurance Reserve amounts to \$1,772,000 including the estimated amount of \$25,000 set aside to meet the larger unadjusted loss claims. It has been reduced during the year principally due to the grounding of the *Canadian Constructor*.

Profit and Loss

The deficit for the year will, we understand, be assumed by the Government of Canada. In considering the accumulated deficit appearing on the Balance Sheet amounting to \$3,619,000, it should be noted that the amount of interest on Government advances for deficits paid by the Company to 31st December, 1950 amounts to \$3,732,000.

Where foreign currencies are involved the Balance Sheet Accounts of the Steamships are converted generally as follows:—

- (a) U.S. Currency—at the dollar par of exchange;
- (b) Other Foreign Currencies—at the current rates.

Dollar amounts stated in this Report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Mr. Fulton moves that the report be entered in our stenographic report, taken as read, and the auditor is here now to answer questions.

Carried.

The CHAIRMAN: Any questions as to page 1?

Mr. FULTON: Would you read my motion again, Mr. Chairman?

The CHAIRMAN: Your motion is that the report be entered into our stenographic report without being read. That is carried.

Any question as to page 1?

Mr. FULTON: Just give us a minute or two on each page, will you? Mr. Turville, is there any substantial difference between the form and content of your report this year and that of previous years?

Mr. TURVILLE (Geo. A. Touche & Co., Chartered Accountants): Not on the first page, certainly not.

Carried.

The CHAIRMAN: Page 2. Would you mind indicating what major change, if any, is made in the content of your report?

Mr. TURVILLE: Mr. Chairman, there is no major change made in the report or in the information furnished in the report.

The CHAIRMAN: Has there been any change made in accounting factors of any consequence during the year?

Mr. TURVILLE: There has not.

The CHAIRMAN: Mr. Fulton moves that the report carry.

Mr. FULTON: Mr. Chairman, I am delighted to find I am taking such a large part in the motions made in this committee.

One further question, which is a very general question: I am sure that Mr. Turville gives a great deal of time with respect to the audit he makes of the accounts of the company and I would like to ask him this question. I recall that in previous audits, I think it was in 1946 and in 1947, you made certain recommendations of a fairly substantial nature which you told us you did not write in your subsequent report.

Mr. TURVILLE: That is correct.

Mr. FULTON: My recollection also is you told us last year that those recommendations were embodied in greater or less detail in some of the recommendations made to the Royal Commission on Transportation. Were any of these recommendations accepted by the Royal Commission on Transportation?

Mr. TURVILLE: Yes, I am happy to report some have been.

Mr. FULTON: Now, could you tell us to what extent, not going into too much detail, those recommendations are embodied in the report of the Royal Commission on Transportation?

Mr. TURVILLE: First of all, I would say that the first recommendation was that uniform accounting should be put into effect in the major railways of Canada and there is reference to that in the Royal Commission on Transportation report, with their approval.

Another recommendation that we made had referred to the very heavy interest burden to which the Canadian National Railways were subjected and as we all know that has been taken into consideration in the report of the Royal Commission on Transportation. Those are the two major points which we mentioned.

Mr. FULTON: Are those the two major points of your 1946-1947 recommendations?

Mr. TURVILLE: Yes, they are.

Carried.

Mr. FULTON: You have added in effect no new material or recommendations in your report?

Mr. TURVILLE: I think I should answer you by stating to the committee that we had considered very seriously as to whether we should in 1949 and in 1950 repeat our recommendations or make additional ones and in my considered view, I felt that that should not be done as the matter was before the Royal Commission on Transportation and has to be settled by parliament, I felt the recommendations we made in 1946 and 1947 were sufficient up to that point.

The CHAIRMAN: And you have no new recommendations to make this year.

Mr. TURVILLE: No, sir.

Mr. FRASER: Mr. Chairman, may I ask on page 4 what is this hotel Scribe mentioned there?

Mr. TURVILLE: That is the hotel that is owned by Canadian National System in Paris.

Mr. FRASER: As an office?

Mr. TURVILLE: No, it is an hotel building; it is pronounced "S-e-r-e-e-b", by the way.

Mr. FRASER: Well, I am not French.

Mr. TURVILLE: Neither am I.

Some Hon. MEMBERS: Oh, oh.

Mr. FRASER: That is one on me; thanks very much.

The CHAIRMAN: Are you ready for Mr. Fulton's motion to carry the auditors' report on the railway? All those in favour?

Carried.

Mr. FULTON: Do you want me to make the motion on the West Indies Steamships in the same volume?

The CHAIRMAN: Mr. Fulton moves again that the auditors' report on the West Indies Steamships carry.

Carried.

We now have vote 493:

No. of Vote	Service	De- tails on Page No.	1951-55	1950-51	Compared with Estimates of 1950-51	
					Increase	Decrease
493	Prince Edward Island Car Ferry and Terminals— To provide for the payment during the fiscal year 1951- 52 to the Canadian Nation- al Railway Company (here- inafter called the National Company) upon applica- tions approved by the Min- ister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the au- ditors of the National Com- pany) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1951.....	477	1,280,000	1,159,000	121,000	

Mr. McLURE: What form is that in there, a service or a deficit?

Hon. Mr. CHEVRIER: A service.

Mr. FULTON: It is not in my copy of the Estimates.

Hon. Mr. CHEVRIER: It is in the same form as the item in the Estimates which we discussed the other night and you seemed to be perfectly satisfied.

Mr. McLURE: It was under service that time; it was always under service before.

The CHAIRMAN: Mr. McLure moves that Vote 493 carry.
Carried.

Vote 495:

No. of Vote	Service	De- tails on Page No.	1951-52	1950-51	Compared with Estimates of 1950-51	
					Increase	Decrease
495	Canadian National (West Indies) Steamships, Limited— To provide for the payment from time to time to the Canadian National (West Indies) Steamships, Limited (hereinafter called "The Company") of the amount of the deficit occurring during the year ending December 31st, 1951 in the operations of the Company and the vessels under the control of the Company, as certified by the Auditors of the Company, and upon applications made by the Company to the Minister of Finance and approved by the Minister of Transport, not exceeding.....	477	845,000	720,000	125,000	

Shall the vote carry?

Carried.

Mr. FULTON: On division.

The CHAIRMAN: 501:

501	Maritime Freight Rates Act— For the payment to the Railway Companies operating in the select territory designated by the Act, during the fiscal year 1951-52, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by Auditors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the Calendar Year 1951, (Chap. 79, Statutes of 1927, as amended).....	479	9,125,000	7,319,000	1,806,000	
	<i>Appropriations not required for 1951-52.....</i>	479	.....	958,816	.....	958,816
	Total, Railway and Steamship Services.....		17,432,000	15,852,816	1,579,184	

Mr. McCulloch moves it carry.
Carried.

Gentlemen, before we adjourn I know that you would want me to express our appreciation and thanks to Mr. Gordon and his large staff who have attended at our sessions of our committee. To me it is an amazing thing that one man could have the grasp of the operations of this vast system that Mr. Gordon has gained in so short a time.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: I did not believe it was possible, Mr. Gordon.

Mr. FULTON: I do not think Mr. Gordon did either, from what he said last year.

The CHAIRMAN: Another thing that amazes me is the good natured way in which he has answered all our questions. On behalf of the committee I am pleased, Mr. Gordon, to thank you from the bottom of our hearts for what you have done.

Some Hon. MEMBERS: Hear, hear.

Mr. FULTON: I do wish to echo what you have said and it does not require an argument. I would just like to add this: I hope Mr. Turville and his associates will not feel from what might otherwise be considered a somewhat cursory dealing with the auditor's report, that it is of minor importance. However, you recall we gave it somewhat careful examination last year and in view of the fact that many of the matters in it are waiting decision as the result of the royal commission report we have not spent much time on it.

The CHAIRMAN: I think it shows great confidence in the auditor.

Mr. TURVILLE: May I say a word in reply to Mr. Fulton. I appreciate what you have said but I should like the committee to know that I have come to this meeting prepared.

Mr. POULIOT: I agree with all that has been said about Mr. Gordon and his associates and I think we have a pretty good Minister of Transport too.

Mr. FRASER: Mr. Chairman, when are we going to take up Trans-Canada Air Lines?

The CHAIRMAN: Trans-Canada Air Lines officials are going to attend this committee at 11 o'clock on Monday morning.

Mr. GORDON: Before the meeting ends I would just like to say a word of appreciation of the manner in which this committee has received myself and my officers, and for the keen interest which has been displayed in the affairs of the Canadian National. I leave the committee with the gratifying feeling that everyone present wants the Canadian National to continue to be a credit to the country.

I sense, from the discussions we have had here, that there has emerged a clearer understanding of the managerial problems connected with the operation of this very vast system, and I sense a sympathetic viewpoint towards it.

Now, from a personal point of view, I want to say these annual examinations are for me remarkably similar to the mental drills visited upon students every spring in their educational institutions. Like many of the examinees, when the inquisition is over, I find myself thinking there are a great many more questions I could have answered. I do not suggest from that remark that I want you to think up more questions next year.

At all events, I hope I have shown you that the preparation made by my officials and myself to meet the committee means that personally I have so to inform myself that I am better equipped to discharge the large responsibilities of the president of your company.

Thank you.

Mr. FULTON: Mr. Chairman, I do apologize for entering a serious note here, but I am not going to make any apologies for my omission to discuss the question of oil rights which were discussed last year. I am not going to ask the chairman or members of the committee to go back to that but I do say the fact I omit it this year should not be taken as an indication that I will omit it another year.

Mr. McLURE: I would like to make a suggestion here, one which was made last year, that the president of the road invite this committee to hold its meetings in Montreal next year. We would then see the plant that we so often talk about.

Mr. FRASER: Mr. Chairman, I think Mr. McLure ought to invite us down to see that car ferry that runs to Prince Edward Island.

Rail

Appendix

CANADIAN NATIONAL RAILWAYS
BRITISH COLUMBIA DISTRICT—KAMLOOPS DIVISION
PROPOSED SCHEDULE FOR INSTALLATION OF AUTOMATIC BLOCK SIGNALING
JASPER, ALTA.—PORT MANN, B.C.

Year	Subdivision	From	To	Miles	Cost	Remarks
1948-49	Ashcroft.....	Spence's Bridge.....	Boston Bar.....	51.7	\$750,000	24 miles in service June 1949. 27.7 miles in service Nov. 1949. 26.7 miles in service May 1950. 13.8 miles in service June 1950. 24.9 miles in service Feb. 1950. Will be completed in 1951.
1949-50	Yale.....	Boston Bar.....	Hope.....	40.5		
1950.....	Albreda.....	Red Pass Jct.....	Jackman.....	24.9	190,000	
1951.....	Albreda.....	Jasper.....	Red Pass Jct.....	41.6	378,000	
1952.....	Ashcroft.....	Ashcroft.....	Spence's Bridge.....	25.0	220,000	(Canoe River is between Jackman and Blue River).
1953.....	Ashcroft.....	Kamloops Jct.....	Ashcroft.....	48.9	440,000	
1954.....	Albreda.....	Jackman.....	Blue River.....	65.8	608,000	
1955.....	Clearwater.....	Blue River.....	Birch Island.....	61.6	585,000	
1956.....	Clearwater.....	Birch Island.....	Kamloops Jct.....	77.8	760,000	
1957.....	Yale.....	Hope.....	Port Mann.....	74.4	750,000	
				512.2	\$4,681,000	
				Miles	Cost	
				Completed to date.....	117.1	\$ 940,000
				Balance to be done.....	395.1	3,741,000

Office of Chief Engineer,
Montreal, February 5, 1951.

SESSION 1951

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

CHAIRMAN—MR. HUGHES CLEAVER

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

MONDAY, APRIL 23, 1951

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines,

Mr. F. P. Turville of George A. Touche & Co.

Trans-Canada Air Lines—Annual Report (1950)
Auditors' Report to Parliament

MINUTES OF PROCEEDINGS

MONDAY, April 23, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 o'clock a.m. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Benidickson, Carter, Cavers, Cleaver, Fraser, Fulton, George, Gillis, Hatfield, Helme, Knight, Macdonald (*Edmonton East*), Macdonnell, McCulloch, Mott, Mutch, Pouliot, Thomas.

In attendance: Right Honourable C. D. Howe, Minister of Defence Production and Trade and Commerce. Messrs. G. R. McGregor, President, Trans-Canada Air Lines, W. S. Harvey, General Auditor, S. W. Sadler, General Accountant, R. C. McInnis, Director, Public Relations, D. E. McLeod, General Superintendent, Public Relations.

Mr. G. R. McGregor was called. He read the Annual Report of Trans-Canada Air Lines and his examination was begun. He was assisted by Mr. W. S. Harvey.

The tables contained in the Annual Report were taken as read and ordered incorporated.

Mr. Howe gave the dates of the original appointments of the directors of the Trans-Canada Air Lines.

The witness undertook to table answers not readily available.

At 1 o'clock, the Committee adjourned until 4 o'clock this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Benidickson, Carter, Cavers, Cleaver, Fraser, Fulton, George, Gillis, Hatfield, Helme, Knight, Macdonald (*Edmonton East*), Macdonnell, McCulloch, Mott, Mutch, Thomas.

In attendance: Same as at morning sitting and Mr. F. P. Turville of George A. Touche & Company.

The Committee concluded its examination of the Annual Report of Trans-Canada Air Lines.

On motion of Mr. McCulloch,

Resolved,—That the Annual Report of Trans-Canada Air Lines (1950), including the Consolidated Balance Sheet, be approved.

Mr. McGregor tabled answers to questions of Messrs. Fulton and Macdonnell asked at the morning meeting and was examined thereon.

Ordered,—That the above answers be printed as appendices (*see this day's minutes of proceedings, appendices A, B, C and D.*)

Mr. Howe quoted an extract from BOAC annual reports relating to deliveries of North Stars.

Mr. McGregor was retired.

AUDITOR'S REPORT

Mr. Turville was recalled.

The report of the auditors was taken as read and Mr. Turville was briefly questioned.

On motion of Mr. McCulloch,

Resolved,—That 'the Auditors' Report (Trans-Canada Air Lines) be approved.

Mr. McGregor was recalled.

A discussion arose as to the 1951 Trans-Canada Air Lines budget. The Chairman pointed out that, contrary to last year, the budget had not been referred. Thereupon, Mr. Fulton suggested that the Committee recommend that in the future the budget of Trans-Canada Air Lines be referred along with its Annual Report.

Mr. Howe answered questions with respect to appointments to Board of Directors and the rentals in the ICAO Building in Montreal.

Messrs. McGregor, Turville were retired.

The Chairman thanked the witnesses.

At 4.55 o'clock, the Committee adjourned until Tuesday, April 24, at 10 o'clock to consider its draft report to the House.

ANTONIO PLOUFFE,
Clerk of the Committee.

Appendix A.

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED

*Financial Results—North Atlantic & Bermuda-Caribbean Services
Years 1950-1949*

	Year 1950		Year 1949	
	North Atlantic	Bermuda-Caribbean	North Atlantic	Bermuda-Caribbean
Operating Revenues.....	\$6,899,519	\$1,445,296	\$9,062,160	\$1,160,227
Operating Expenses Excluding Depreciation..	6,288,897	2,301,599	9,609,781	1,992,605
Surplus or <i>Deficit</i> of Revenues to Operating Expenses before Depreciation and Interest Depreciation.....	\$ 610,622 701,031	\$ 856,803 322,798	\$ 547,621 962,666	\$ 832,378 264,703
Operating <i>Loss</i> after Depreciation.....	\$ 90,409	\$1,179,101	\$1,510,287	\$1,097,081
Interest on Capital Invested.....	185,513	71,389	228,408	62,373
<i>Deficit</i>	\$ 275,922	\$1,250,490	\$1,738,695	\$1,159,454
Percent to total Atlantic Services <i>Deficit</i>	18%	82%	60%	40%

Appendix B.

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED
OPERATIONS AND TRAFFIC REVIEW*North Atlantic & Bermuda—Caribbean Services
Years 1950 & 1949*

	North Atlantic		Bermuda-Caribbean	
	1950	1949	1950	1949
Revenue Miles Flown.....	2,173,270	3,329,679	1,017,695	828,844
Revenue Passengers Carried.....	17,749	24,901	14,952	11,611
Mail Ton Miles.....	390,044	400,548	4,295	4,355
Commodity Ton Miles.....	1,298,978	1,442,889	223,017	135,098
Revenue Passenger Miles.....	53,060,008	79,829,877	21,412,291	15,881,947
Available Seat Miles.....	75,657,812	117,528,156	40,341,252	32,330,814
Available Ton Miles.....	11,292,896	16,356,398	5,932,864	4,403,299
Revenue Ton Miles.....	7,839,664	11,077,453	2,735,819	1,993,908

Appendix C.

TRANS-CANADA AIR LINES

Passengers Carried—By Months
Year 1950

	North American Services	North Atlantic Service	Bermuda and Caribbean Service	All Services
January.....	40,773	1,058	1,207	43,038
February.....	44,469	1,055	1,669	47,193
March.....	55,067	1,451	2,385	58,903
April.....	64,310	1,376	2,190	67,876
May.....	67,930	1,397	758	70,085
June.....	76,314	1,977	820	79,111
July.....	73,652	2,037	1,002	76,691
August.....	89,372	1,916	931	92,219
September.....	80,448	2,196	1,118	83,762
October.....	75,504	1,373	901	77,778
November.....	62,112	844	783	63,739
December.....	60,857	1,069	1,188	63,114
	790,808	17,749	14,952	823,509

Appendix D.

TRANS-CANADA AIR LINES

Basis of Rental—City Traffic Office—Montreal

AVIATION BUILDING—1,582 square feet.	
Rental May 1, 1951 to May 1, 1952.....	\$10,000 per annum or \$6.32 per square foot.
As from May 1, 1952.....	\$11,000 per annum or \$7.00 per square foot.
PEEL AND BURNSIDE OFFICE—2,191 square feet.	
Rental per annum.....	\$7,830
exclusive of:	
Cleaning.....	} approx. \$2,600 per annum.
Janitor Service.....	
Lighting.....	
After hour Heating.....	
Total per year.....	\$10,430 or \$4.76 per square foot.

EVIDENCE

HOUSE OF COMMONS,
APRIL 23, 1951.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m.

The CHAIRMAN: Gentlemen we have a quorum. We have with us today Right Hon. Mr. Howe, and Mr. Gordon McGregor, president of T.C.A., and his officials.

Shall Mr. McGregor read his report?

Mr. FULTON: I so move.

Mr. MACDONNELL: Is it the practice to have the report read through and then have questions asked afterwards?

The CHAIRMAN: That is right.

I might say that along with Mr. McGregor we have Mr. W. S. Harvey, general auditor, Mr. R. C. McInnis, director of public relations.

Will you carry on, Mr. McGregor?

Mr. MCGREGOR:

TRANS-CANADA AIR LINES

MONTREAL, FEBRUARY 28, 1951.

To the Right Honourable,
the Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the consolidated Reports of the Trans-Canada Air Lines domestic and overseas services for the calendar year 1950.

The system as a whole during this period not only provided the greatest amount of air transportation in its history but also achieved a much improved financial position.

It is gratifying to report a surplus for North American operations and a reduced deficit for overseas operations, approximately half that of 1949. These were the results of a general increase in patronage coupled with an improvement in operating efficiency.

The total revenue mileage flown by the Company increased by 6% over 1949, with 5% fewer employees and with a fleet that remained unchanged in size.

T.C.A.'s 20 North Stars and 27 DC-3's performed well, again proving themselves a well-balanced and efficient group of aircraft.

DETAIL

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

FINANCIAL REVIEW

There follows a tabulation of the 1950 operating results compared with those of 1949:

	1950	1949	Increase or Decrease Amount Per Cent	
Operating Revenues	\$31,810,684	\$26,523,969	\$ 5,286,715	20
Operating Expenses Excluding Depreciation	28,365,271	24,605,301	3,759,970	15
Surplus of Revenues over Operating Expenses before Depreciation and Interest	\$ 3,445,413	\$ 1,918,668		
Depreciation	2,751,109	2,867,427	116,318	4
Operating Profit or Loss after Depreciation	\$ 694,304	\$ 948,759		
Interest on Capital Invested	493,098	470,685	22,413	5
Surplus or Deficit	\$ 201,206	\$ 1,419,444		

Passenger revenue totalled \$24,183,501, increasing by \$4,723,106 or 24%. Commodity revenues rose by \$467,452, an increase of 46%. Revenue from Sales and Services increased by \$44,731 or 11%. Other revenues increased by \$51,426. Passenger revenue contributed 76% of the total, mail revenue 17% and commodity revenue 5%.

The year's higher operating expenses were due principally to the continued development and expansion of the Company's services. Revenue miles flown increased by 14%, and this, of course, involved additional charges for aircraft maintenance, gasoline consumption, passenger handling and many other related items.

The continued trend towards higher wage and price levels was also reflected in the Company's accounts. Payroll chargeable to operating expenses rose by \$1,250,838.

In spite of these circumstances, however, the increase in productivity of both personnel and equipment was such that the unit cost of providing transport dropped 7%. Cost control policies were enforced and there was a continuing awareness throughout the organization of the need for economies.

OPERATIONS AND TRAFFIC REVIEW

Traffic moving on TCA's services in 1950 was of record proportions in all categories.

	1950	1949	Per cent Increase
Revenue Miles Flown	\$ 18,648,390	16,364,733	14
Revenue Passengers Carried	790,808	648,574	22
Mail Ton Miles	3,644,752	3,403,810	7
Aircargo Ton Miles	2,319,712	1,053,996	120
Air Express Ton Miles	998,479	884,112	13
Revenue Passenger Miles	379,605,810	310,699,767	22
Available Seat Miles	548,850,808	459,842,123	19
Available Ton Miles	77,369,710	63,449,171	22
Revenue Ton Miles	44,258,785	35,843,949	23

Service Development

Growth of air service took the form of increased flight frequency on existing routes, rather than geographic expansion of operations.

The inauguration of TCA service between Montreal and New York on April 1 was the only exception to that general rule. This constituted an important addition to TCA's route structure, completing, with the Toronto services, a

triangular pattern of considerable economic significance. Initial scheduling called for three daily flights with North Star equipment. Early loads have been satisfactory and there is every reason to expect that this Canadian operation between the two largest cities of their respective countries will prove a national asset.

From mid-May until September, a fourth daily transcontinental North Star service was operated between Toronto and Vancouver to cope with summer travel requirements.

Passenger Traffic

Passenger traffic continued to be the dominant source of Company revenues, with the popularity of air travel gaining further momentum throughout the year. In the past five years, the volume of TCA's North American passenger business has risen by 332 per cent.

Giving powerful impetus to this wider acceptance were a growing reputation for schedule reliability, the absence of any increase in the price of air transport and a program of promotional activity which brought more forcibly to the attention of Canadians the air services now available to them.

Particularly gratifying in 1950 was the unmistakable trend away from major fluctuations in seasonal air travel. Although considerable variation still existed between summer and winter loads, there was a decided increase in traffic volume during the low months. October passenger traffic was only 5 per cent less than that of September as compared with an 11 per cent decrease in the same two months of 1949. November and December figures gave similar results. Here credit is due to the high level of operating performance throughout the year that did much to allay the not uncommon doubt of air transportation's ability to maintain scheduled service in the winter period. To counter such impressions, the Company was able in 1950 to point to 97 per cent of scheduled mileage completed and the dispatching on schedule of 85 per cent of all flights.

There was no increase in the cost of air transportation to the public, airline tariffs remaining a notable exception to the general rule of rising prices. No major fare changes occurred, and what minor adjustments there were took a generally downward direction. Seasonal excursion fares were introduced on the Prairie DC-3 services, between Ottawa, Montreal and New York and between Victoria and Seattle. Reductions of standard fares took place on several Eastern Canadian routes. On October 1, the Family Fare plan was reintroduced and a special discount made available for convention travel. Revaluation of the Canadian dollar in September resulted in some decreases in Canadian fund fares to United States points, but had the opposite effect upon some northbound passenger traffic originating in the United States.

The national railway strike presented TCA with the opportunity of introducing thousands of persons to air travel for the first time and it has since become apparent that many of these enforced "first fliers" continued to use air services.

Mail Traffic

TCA continued the general carriage of first-class mail. Its volume would have been greater than in 1949 in any case, but the major demand put upon the airline by the rail strike resulted in a 7 per cent increase in aggregate load.

Throughout the year, the Company received mail pay on the basis of the interim agreement reached with the Post Office Department at the time of the introduction of the "all-up" service in 1948. This called for a fixed monthly payment of \$450,000. But towards the end of 1950 there were indications that it would be possible to negotiate a mail contract having as its essential features a sliding scale of payments based upon increasing mail volume and very substantial reductions in payment by the Post Office per ton mile of mail carried.

Commodity Traffic

Although the volume of air express and cargo traffic continued to be small in comparison to that of passengers and mail, a further healthy growth was recorded. Air express and aircargo rates were also free of increases and with surface transport tariffs on the rise, the airline's competitive position was improved.

Company research into specialized marketing problems, including light-weight packaging techniques, did much to stimulate use of its shipping services.

Routes

At December 31, 1950, Trans-Canada Air Lines was providing service for passenger, mail and commodity traffic over nationwide routes totalling 8,362 miles. This was an increase of 277 miles or 3 per cent over 1949. The route map on pages 12 and 13 illustrates the geographic scope of the Company's operations.

Airway Facilities

The co-operative relationship between the Department of Transport and TCA continued to encourage an orderly development of Canada's civil aviation facilities, although curtailment of Departmental appropriations for this purpose made necessary the postponement of a number of airway and airport projects.

Important runway extensions took place at Toronto and Sydney and instrument landing equipment was intalled at several more points. These undertakings had the effect of simplifying airline operations.

The city of Vancouver constructed an interim airport administration building, adequate for present needs, to replace the previous structure destroyed by fire.

DETAIL

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED

FINANCIAL REVIEW

The following is a tabulation of the year's financial results for the North Atlantic, Caribbean and Bermuda services and a comparison with 1949:

	1950	1949	Decrease	
			Amount	Per Cent
Operating Revenues	\$8,344,815	\$10,222,387	\$1,877,572	18
Operating Expenses Excluding Depreciation..	8,590,496	11,602,386	3,011,890	26
<i>Deficit</i> of Revenues to Operating Expenses before Depreciation and Interest	\$ 245,681	\$ 1,379,999		
Depreciation	1,023,829	1,227,369	203,540	17
Operating <i>Loss</i> after Depreciation	\$1,269,510	\$ 2,607,368		
Interest on Capital Invested	256,902	290,781	33,879	12
<i>Deficit</i>	\$1,526,412	\$ 2,898,149		

Of the \$1,526,412 net deficit, the North Atlantic services were responsible for only \$275,922.

Passenger traffic on scheduled operations accounted for revenue of \$6,027,010, decreasing by \$1,068,677 or 15 per cent. Mail revenue totalled \$1,177,428. Commodity revenues amounted to \$822,331, an increase of \$30,087 or 4 per cent. Revenue from Sales and Services decreased by \$43,367 or 20 per cent. Revenue from charter services fell from \$878,842 in 1949 to \$98,093 in 1950, a decline of 89 per cent, resulting from discontinuation of the immigrant air charter plan in March of the previous year. Passenger revenue contributed 72 per cent of the total, mail revenue 14 per cent and commodity revenue 10 per cent.

Fare reductions for off-season and excursion travel lowered the average revenue per passenger from \$212 in 1949 to \$187 in 1950.

Increased competition on the North Atlantic route left its mark upon passenger revenues. In 1950, British Overseas Airways Corporation intensified service to a considerable extent, while KLM, Air France, and a charter operator were licensed to operate between Montreal and Continental Europe. TCA carried the major portion of overseas traffic but the share was smaller than in 1949.

Although Caribbean and Bermuda traffic showed some growth, this result was achieved in spite of increasingly severe travel restrictions applied by the Caribbean authorities upon the Canadian carrier.

In spite of these factors, the Company was able to effect a considerable improvement in its net financial results. The situation on the North Atlantic justified some reduction in overseas flight frequency, particularly as it was possible to transfer aircraft and crews advantageously to expanded domestic operations.

OPERATIONS AND TRAFFIC REVIEW

A comparison of TCA's combined North Atlantic, Caribbean and Bermuda flying in 1950 and 1949 follows:

	1950	1949	Per Cent Decrease
Revenue Miles Flown	3,190,965	4,158,523	23
Revenue Passengers Carried	32,701	36,512	10
Mail Ton Miles	394,339	404,903	3
Commodity Ton Miles	1,521,995	1,577,987	4
Revenue Passenger Miles	74,472,299	95,711,824	22
Available Seat Miles	115,999,064	149,858,970	23
Available Ton Miles	17,225,760	20,759,697	17
Revenue Ton Miles	10,575,483	13,071,361	19

Service Development

TCA's summer schedule between Canada and the British Isles called for a daily round flight, with second sections being operated when needed. This frequency was cut back to some extent during the winter season. The North Atlantic was crossed 656 times in scheduled and non-scheduled service as compared with 996 times in the previous year. Peak scheduling in 1949 called for two daily round flights.

On the other hand, there were moderate seasonal increases in Caribbean and Bermuda operations.

The Company began the first direct air service between Canada and the Southern United States on April 2, when Tampa, Florida was included in the Caribbean flight schedule. This called for little additional flying, but threw open a considerable vacation travel potential between Canada, Florida and the British West Indies.

Passenger Traffic

The airline carried 17,340 passengers on scheduled North Atlantic services during 1950, as compared with 21,872 in the previous year. Passengers on the southern services numbered 14,952, an increase of 3,409.

In the interests of reducing seasonal fluctuation of trans-Atlantic traffic, TCA and the other international operators introduced an off and on season passenger tariff schedule that provides a combination of return fares varying with the actual season of travel. Fifteen day summer excursion fares were offered on the Caribbean services and 30-day excursion fares to Bermuda.

On November 1, there was a general industry increase in North Atlantic passenger fares, but in the case of TCA this was largely absorbed later by the tariff adjustments that followed revaluation of the Canadian dollar.

Much of the North Atlantic traffic that might have been expected from the Holy Year observances in Rome was taken by the non-scheduled operators.

In December, the Company entered into an agreement with the Canadian Government for air transport of immigrants from the United Kingdom and Continental Europe. Under its terms, an immigrant may fly from London, Prestwick or Shannon to Montreal or points east of Montreal at a reduced price, the balance of the normal one-way fare being paid by the Government to the airline. This had no effect upon TCA revenues in 1950, but showed some promise of strengthening westbound loads in early 1951. The agreement is valid until March 31, when it becomes subject to review. TCA offices overseas are co-operating fully with the Department of Citizenship and Immigration in the stimulation of immigrant travel.

Mail Traffic

The volume of North Atlantic mail remained virtually unchanged. It continued to be the case that TCA was given little of this traffic on the southern services.

Commodity Traffic

North Atlantic cargo traffic was on much the same scale as in 1949. With fewer flights scheduled, however, individual loads tended to be considerably greater and many westbound operations took place with capacity cargo.

In spite of Caribbean trade restrictions, the volume of aircargo on the southern services increased by 65 per cent. This, however, was a mere fraction of what could be achieved under normal commercial conditions.

Routes

TCA's overseas routes now total 8,477 miles, touching at England, Scotland, Ireland, Bermuda, the Bahamas, Jamaica, Barbados and Trinidad.

GENERAL

Balance Sheet

There was evident a continued improvement in TCA's financial position during 1950. Working Capital was ample and the investment in Property and Equipment remained constant at \$30,000,000 in spite of the expansion in traffic.

The Company's self-insurance fund increased by \$419,233 during the year and now totals \$4,078,941. Extending the policy established in 1949, accruals for hull, passenger and public liability insurance were suspended in the North American services as the income from the fund's investments was sufficient to maintain the reserve at slightly in excess of the desired level of \$3,000,000.

The aircraft major overhaul reserve, established in 1949, was increased to \$860,000 to provide for the anticipated expense of the overhaul program.

Depreciation funds in excess of Capital requirements increased by \$5,000,000 and periodically throughout the year the surplus was employed to purchase securities. At December 31, investments amounted to \$4,500,000 in CNR 2½ per cent bonds and \$1,500,000 in 3 per cent Provincial bonds.

Personnel

The airline's work was done with a more compact staff than in 1949. Personnel at December 31 numbered 4,904, as compared with 5,137 a year previously.

Completion of aircraft overhaul projects resulted in some necessary reductions in engineering and maintenance establishments.

TCA continued to grow in experience and it is indicative that by the end of the year almost all TCA Captains had flown more than 1,000,000 miles in commercial air service.

Property and Equipment

During the year, the program of major overhaul of the Company's DC-3 fleet was completed. Several important modifications were made to the North

Stars, including the installation of an improved cabin pressurization system. As a result, aircraft performance exceeded even the fine record of 1949.

The North Stars assigned to the overseas operations provided a service that compared more than favourably in regularity and dependability with those of the Company's competitors. The most outstanding demonstration of performance occurred in October, when 30 of the 31 eastbound flights on the 3,000 mile North Atlantic route arrived at destination on or ahead of schedule.

The Company was able to restrict its expenditures for ground facilities to a very small aggregate amount, considering the size of the enterprise. A hangar building was purchased at Vancouver and a new and better-equipped Montreal Ticket Office opened in the International Aviation Building, but other than this there were no changes of major consequence.

Emergency Transport Services

Conditions created in Manitoba by the serious flooding of the Red River required a large amount of emergency TCA transportation. From May 8 to May 13 the airline operated, in addition to its regular service, approximately 40 special round trip flights between Winnipeg and Eastern Canada. Over 500,000 pounds of relief supplies were carried and 2,500 persons were evacuated.

During the 9-day period of the railway strike, 125,000 extra miles were flown for the movement of essential mainline traffic. Although this represented a 25 per cent increase over the normal daily schedule, the operational expansion was accomplished efficiently and flights in general remained close to schedule. Personnel worked 20,000 hours of overtime and it was due to their willing and effective support that the Company was able to discharge its responsibilities, both on this occasion and at the time of the flood. The heavy cost of providing the emergency services minimized any financial advantage to the airline.

Such demonstrations of TCA's ability to meet essential transportation needs under conditions of national crisis are naturally a source of gratification to the Company.

Flight Equipment

Although the existing TCA fleet was fully adequate in 1950, and continues to meet requirements, the airline remains alert to contemporary design trends. The technical staff is thoroughly conversant with current developments in the field of aircraft propulsion and when the time comes for fleet re-equipment, the airline will be in a position to make a reasoned choice. That step will not be taken until Management is in the possession of the fullest operational and cost data and few, if any, manufacturers today are able to provide such comprehensive information regarding new aircraft types.

The Air Transport Prospect

In April, the North Atlantic service will be extended to include Paris, but no other major route additions are at present foreseen.

The improvement of the past year's financial results will, it is believed, continue to be apparent in 1951. Due regard must, however, be taken of the general rise in wages and prices and of the existence of many artificial barriers to international trade and travel.

Fortunately, the airline is well fortified with both human and material resources. Higher revenues will almost certainly be attained and the most careful control of expenses will be exerted.

TCA will continue to provide air transportation at the lowest possible price consistent with the maintenance of its standards. It will endeavour to widen its markets and increase the scope and value of the enterprise to Canada and Canadians.

Appreciation

The success of the Company in 1950, both operational and financial, could not have occurred without the service loyally given by staff. The ability and team work of TCA personnel continued to be deserving of high praise and the airline can take satisfaction in the quality of its working force. For the splendid support of employees the Board of Directors once again extend sincere appreciation.

For the Directors,

G. R. McGREGOR

President.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1950

RAILWAYS AND SHIPPING

199

ASSETS

CURRENT ASSETS:

Cash.....	\$2,969,096.54
Working Fund Advances.....	11,402.50
Temporary Cash Investments at cost.....	6,000,935.00
Special Deposits.....	8,133.99
Accounts Receivable.....	2,719,128.13
Traffic Balances Receivable from Other Carriers.....	910,205.85
Balances Receivable from Agents.....	462,407.89
Government of Canada—balance of deficit.....	95,050.63
Material and Supplies.....	1,706,119.23
Interest Receivable.....	59,213.71

DEFERRED CHARGES:

Prepayments.....	\$ 33,993.74
Other Deferred Charges.....	26,548.45

INSURANCE FUND.....

4,078,941.20

INVESTMENTS IN JOINT ASSOCIATION.....

20,575.73

CAPITAL ASSETS:

Property and Equipment.....	\$30,126,909.42
Less Accrued Depreciation.....	13,444,746.71

16,682,162.71

\$35,783,915.30

LIABILITIES

CURRENT LIABILITIES:

Audited Accounts Payable.....	\$ 885,113.09
Accrued Accounts Payable.....	1,385,661.84
Traffic Balances Payable to Other Carriers.....	1,021,023.20
Air Travel Plan Deposits.....	760,323.00
Salaries and Wages.....	684,986.87
Prepaid Transportation.....	1,068,125.78
Other Current Liabilities.....	38,973.94

\$ 5,844,209.72

RESERVES:

Insurance.....	\$ 4,078,941.20
Overhaul.....	860,764.38

4,939,705.58

CAPITAL STOCK:

Common Stock—fully paid.....	25,000,000.00
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25,000,000.00

PROFIT AND LOSS:

Atlantic Services—Deficit Year 1950.....	\$ 1,526,411.56
North American Services Surplus Year 1950.....	201,205.93

\$ 1,325,205.63

Charged to Government of Canada.....

\$ 1,325,205.63

\$35,783,915.30

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines and its Subsidiary Company for the year ended the 31st December, 1950. We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1950, and that the relative Income Accounts for the year ended the 31st December, 1950, are correctly stated. We are reporting to Parliament in respect of our annual audit.

28th February, 1951.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

T. H. COOPER,
Comptroller.

INCOME ACCOUNTS

NORTH AMERICAN SERVICES

Year 1950	Year 1949
\$24,183,500.60	\$19,460,394.52
5,400,000.00	5,400,000.00
1,473,254.68	1,005,803.36
194,573.17	155,809.07
118,920.64	106,257.92
440,435.21	395,704.38
<u>\$31,810,684.30</u>	<u>\$26,523,969.25</u>

ATLANTIC SERVICES

Year 1950	Year 1949
\$ 6,027,009.91	\$ 7,095,687.04
1,177,427.84	1,178,653.41
822,311.21	792,243.28
41,463.33	55,017.83
98,355.40	879,190.82
178,227.04	221,594.24

OPERATING REVENUES:

Passenger	\$ 6,027,009.91	\$ 7,095,687.04
Mail	1,177,427.84	1,178,653.41
Express and Cargo	822,311.21	792,243.28
Excess Baggage	41,463.33	55,017.83
Charter and Other	98,355.40	879,190.82
Incidental Services—Net	178,227.04	221,594.24

Total \$ 8,344,814.73 \$10,222,386.62

OPERATING EXPENSES—EXCLUDING DEPRECIATION:

\$ 6,846,268.62	\$ 6,334,459.95	Flight Operations	\$ 2,161,772.70	\$ 3,022,061.39
6,205,210.36	4,583,226.35	Flight Equipment Maintenance ..	1,505,597.33	2,113,024.54
4,443,179.64	4,158,908.72	Ground Operations	1,503,933.31	1,848,764.77
3,558,917.03	3,260,681.07	Ground and Indirect Maintenance	1,289,333.39	1,796,806.08
1,620,623.64	1,508,178.15	Passenger Service	432,382.97	603,875.22
3,324,217.30	2,769,949.30	Traffic and Sales	907,764.58	1,184,296.65
929,195.35	586,719.39	Advertising and Publicity	253,742.60	250,842.09
1,639,892.05	1,504,368.17	General and Administrative	508,033.33	667,785.93
202,232.48	101,189.53	Miscellaneous Income—Net	27,935.89	114,929.20
<u>\$28,365,271.51</u>	<u>\$24,605,301.57</u>	Total	\$ 8,590,496.10	\$11,602,385.87

Surplus of *Deficit* of Revenues over
Operating Expenses before Depre-

\$ 3,445,412.79	\$ 1,918,667.68	ciation and Interest	\$ 245,681.37	\$ 1,379,999.25
2,751,108.88	2,867,426.81	DEPRECIATION	1,023,828.17	1,227,369.02
<u>\$ 694,303.91</u>	<u>\$ 948,759.13</u>	Operatng Profit or <i>Loss</i>	\$ 1,269,509.54	\$ 2,607,368.27
493,097.98	470,684.77	Interest on Capital Invested	256,902.02	290,780.99
<u>\$ 201,205.93</u>	<u>\$ 1,419,443.90</u>	Surplus or <i>Deficit</i>	\$ 1,526,411.56	\$ 2,898,149.26

5100 FLIGHT OPERATIONS

\$1,950,288.42	\$1,682,547.81	23 Captains and First Officers.....	\$ 362,900.42	\$ 489,256.71
—	—	24 Other Flight Personnel.....	176,958.53	273,014.35
1,643.63	72,560.51	28 Training—Salaries and Expenses.....	326.67	14,946.69
173,947.15	164,464.19	36 Travel and Incidental.....	69,136.69	100,053.33
4,707,011.34	4,094,937.68	45 Aircraft Engine Fuel and Oil.....	1,215,830.12	1,730,743.97
10,762.79	9,263.88	53 Other Supplies	2,588.75	6,919.16
—	296,183.29	55 Flight Equipment Insurance.....	329,470.80	404,418.27
2,615.29	14,502.59	74 Other Expenses	4,560.72	2,708.86
<u>\$6,846,268.62</u>	<u>\$6,334,459.95</u>		<u>\$2,161,772.70</u>	<u>\$3,022,061.39</u>

5200 FLIGHT EQUIPMENT MAINTENANCE

\$1,027,955.30	\$ 796,479.49	25 Aircraft—Labour	\$ 190,901.93	\$ 276,289.57
830,497.31	864,295.56	26 Aircraft Engine—Labour	192,602.30	413,475.02
220,010.90	210,838.78	27 Aircraft Other Equipment—Labour...	47,883.08	73,860.86
1,452,247.58	667,842.29	46 Aircraft—Material, etc.	433,620.14	269,279.78
2,027,520.74	1,894,115.69	47 Aircraft Engine—Material, etc.....	532,628.46	994,671.38
331,978.53	149,654.54	48 Aircraft Other Equipment— Material, etc.	107,961.42	85,447.93
315,000.00	—	70 Aircraft Overhaul—Reserve provision	—	—
<u>\$6,205,210.36</u>	<u>\$4,583,226.35</u>		<u>\$1,505,597.33</u>	<u>\$2,113,024.54</u>

RAILWAYS AND SHIPPING

201

NORTH AMERICAN SERVICES

Year 1950	Year 1949
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6100 GROUND OPERATIONS

\$ 236,860.73	\$ 228,547.58
264,239.99	259,569.85
24,985.80	32,787.95
287,206.91	360,338.35
801,914.29	700,248.69
156,618.49	147,212.84
297,056.90	310,559.68
206,612.48	171,906.29
284,584.74	255,861.39
89,938.19	116,838.39
196,540.54	199,847.18
45,380.75	48,002.87
254,133.02	225,405.46
99,390.25	95,711.92
230,965.52	180,139.22
160,350.76	135,539.40
637,024.47	524,992.15
8,828.14	18,856.53
58,250.00	55,136.27
49,391.51	49,030.22
567.32	625.00
52,338.84	41,751.49

\$4,443,179.64	\$4,158,908.72
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ATLANTIC SERVICES

Year 1950	Year 1949
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\$ 157,843.60	\$ 181,494.91
129,755.91	110,963.29
8,248.75	21,657.96
126,554.87	171,122.19
170,480.15	161,556.98
77,380.09	85,190.47
16,422.51	16,218.03
25,655.35	25,742.91
151,917.29	175,044.54
68,049.36	110,936.33
78,987.89	76,067.42
5,838.77	7,464.11
—	154,292.27
42,493.29	33,744.31
88,864.86	107,777.23
60,124.09	55,773.59
179,396.86	213,141.87
3,163.58	17,546.66
23,326.16	40,822.62
17,537.77	17,547.14
405.18	—
71,486.98	64,659.94

\$1,503,933.31	\$1,848,764.77
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6200 GROUND AND INDIRECT MAINTENANCE

\$ 170,258.16	\$ 160,654.54
544,646.18	555,734.81
254,443.46	241,512.09
17,933.15	21,786.20
342,335.82	276,759.13
222,419.28	207,227.31
222,118.39	192,306.38
119,652.97	204,210.07
495,016.45	386,433.23
108,661.89	99,707.63
21,428.81	21,939.59
125,217.25	115,522.54
172,881.41	168,641.19
63,166.15	43,307.75
338,692.95	258,043.34
207,072.72	163,203.43
30,287.45	41,847.85
29,681.75	37,988.22
2,892.68	14,301.23
91.24	104.94
75,804.23	78,052.06

\$3,558,917.03	\$3,260,681.07
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21 General Officers and Superintendents	\$ 46,934.72	\$ 53,300.19
22 Maintenance and Stores Supervision	193,383.37	295,276.93
27 Equipment and Facilities—Labour..	93,350.81	135,894.24
28 Training—Salaries	5,297.43	20,720.86
28 Unallocated Shop Labour	117,622.45	178,251.67
29 Building Attendants	51,207.87	73,896.52
31 Stores Employees	81,621.40	111,856.24
35 Engineering Employees	112,857.19	130,193.38
35 Other Employees	178,792.42	257,001.92
36 Travel and Incidental	28,279.99	40,743.49
37 Telephone and Telegraph	8,959.25	16,382.34
38 Light, Heat, Power and Water	45,388.66	60,920.76
43 Other Services	74,385.68	98,201.56
44 Building and Office Rentals	7,266.35	11,946.20
48 Equipment and Facilities— Materials, etc	124,983.16	140,598.80
49 Shop Supplies	69,829.88	89,084.27
50 Stationery, Printing and Office Supplies	12,732.14	23,877.15
53 Other Supplies	8,739.41	15,313.79
54 Stores Inventory Adjustment	10,617.08	14,868.31
64 Memberships	20.56	10.04
74 Other Expenses	38,297.73	58,199.04

\$1,289,333.39	\$1,796,806.08
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6300 PASSENGER SERVICE

\$ 25,895.08	\$ 34,327.25
478,541.52	398,964.65
5,112.37	7,320.04
1,602.68	6,861.51
122,317.38	103,595.65
35,750.84	32,858.21
398.09	1,115.29
583,732.98	542,477.94
159,538.60	128,164.24
—	71,070.58
132,614.80	101,918.36
57,091.87	58,690.89
18,027.43	20,813.54

\$1,620,623.64	\$1,508,178.15
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21 General Officers and Superintendents	\$ 11,092.82	\$ 18,189.04
24 Stewards and Stewardesses	139,562.04	169,158.82
28 Training—Salaries	2,402.15	4,685.18
35 Other Employees	791.19	3,158.48
36 Travel and Incidental	42,086.60	57,723.80
43 Other Services	21,160.81	22,825.92
50 Stationery, Printing and Office Supplies	107.90	514.27
51 Passenger Food Expense	99,884.05	120,802.42
52 Passenger Supplies	31,314.18	29,707.10
56 Passenger Liability Insurance	31,621.78	38,653.88
63 Interrupted Flight Expense	32,511.35	118,373.20
67 Customs Expense	14,314.36	11,811.84
74 Other Expenses	5,533.74	8,271.22

\$ 432,382.97	\$ 603,875.22
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SESSIONAL COMMITTEE

NORTH AMERICAN SERVICES

Year 1950	Year 1949
\$ 102,938.12	\$ 122,158.07
244,478.98	174,524.69
25,493.58	21,922.89
1,618.15	1,344.96
555,233.23	462,518.21
590,766.06	469,316.59
205,288.09	178,911.86
299,414.25	244,148.10
195,407.66	180,098.49
288,500.63	205,481.37
11,502.43	11,655.00
433,010.48	405,602.14
46,501.34	45,278.86
212,022.98	143,976.33
66,213.16	71,564.10
1,552.37	1,940.10
5,911.44	2,938.06
38,364.35	26,569.48

\$3,324,217.30 \$2,769,949.30

ATLANTIC SERVICES

Year 1950	Year 1949
\$ 28,109.77	\$ 52,228.89
66,760.97	74,618.34
6,961.65	9,373.17
441.87	575.04
151,620.02	197,750.47
161,323.14	200,657.13
56,058.94	76,494.08
81,762.39	104,385.94
53,360.84	77,001.42
78,782.16	87,853.92
3,141.02	4,983.11
118,249.81	173,415.90
12,698.33	19,359.05
57,898.06	61,557.33
18,081.12	30,597.36
423.91	829.50
1,614.26	1,256.17
10,476.32	11,359.83

\$ 907,764.58 \$1,184,296.65

6400 TRAFFIC AND SALES

\$ 48,265.29	\$ 21,352.19	21 General Officers and Superintendents..	\$ 13,180.02	\$ 9,129.17
6,486.61	2,727.45	22 Traffic Supervision	1,771.33	1,166.12
919.36	456.25	23 Training—Salaries	251.05	195.07
183.39	443.78	29 Building Attendants	50.08	189.74
37,372.07	18,302.22	32 Ticketing Employees	10,205.36	7,825.15
4,715.16	539.32	32 Reservations Employees	1,287.59	230.59
11,868.02	7,664.09	33 Traffic Solicitors	3,240.85	3,276.80
51,229.83	42,193.59	35 Other Employees	13,989.56	18,039.94
464,035.98	288,720.86	36 Travel and Incidental	126,719.45	123,443.11
280,751.30	185,334.30	43 Other Services	76,666.02	79,229.19
17,977.49	15,831.21	44 Office Rentals	4,909.19	6,768.66
5,390.85	3,154.13	50 Stationery, Printing and Office Supplies	1,472.10	1,348.55
		53 Other Supplies		
		64 Memberships		
		74 Other Expenses		
\$ 929,195.35	\$ 586,719.39		\$ 253,742.60	\$ 250,842.09

6500 ADVERTISING AND PUBLICITY

\$ 108,503.60	\$ 71,296.45	21 General Officers and Other Employees	\$ 13,180.02	\$ 9,129.17
96,160.29	61,188.77	36 Travel and Incidental	1,771.33	1,166.12
455,421.43	358,755.44	37 Telephone and Telegraph	251.05	195.07
62,279.60	164,685.50	38 Light, Heat, Power and Water.....	50.08	189.74
17,742.27	13,072.23	43 Other Services	10,205.36	7,825.15
5,640.19	5,649.16	44 Office Rentals	1,287.59	230.59
31,376.00	27,964.00	50 Stationery, Printing and Office Supplies	3,240.85	3,276.80
22,569.33	11,795.34	59 Timetables and Schedules	13,989.56	18,039.94
78,766.84	34,912.58	60 Advertising—Space	126,719.45	123,443.11
37,155.73	34,803.16	61 Advertising—Other	76,666.02	79,229.19
23,404.24	45,685.86	62 Other Promotional & Publicity Expense	4,909.19	6,768.66
57,464.44	83,614.69	74 Other Expenses	1,472.10	1,348.55
390,468.33	390,458.42			
20,602.86	15,287.12			
97,875.47	78,683.27			
81,273.24	61,846.66			
53,188.19	44,669.52			
\$1,639,892.05	\$1,504,368.17		\$ 508,033.33	\$ 667,785.93

6600 GENERAL AND ADMINISTRATIVE

\$ 146,649.37	\$1,544,890.73	21 General Officers and Supervision....	\$ 29,682.34	\$ 30,686.74
416,950.08	393,724.08	22 Administrative Supervision—Other ...	26,305.69	26,336.29
253,537.62	374,850.24	35 Other Employees	124,632.39	154,429.21
327,566.31	301,618.12	36 Travel and Incidental	17,118.15	70,882.37
		37 Telephone and Telegraph	4,876.63	5,626.43
		38 Light, Heat, Power and Water.....	1,550.26	2,431.46
		39 Affiliated Company Charge	8,624.00	12,036.00
		41 Professional Fees and Expenses	6,203.40	5,076.84
		44 Office and Equipment Rentals.....	21,678.24	15,026.74
		50 Stationery, Printing and Office Supplies	10,212.61	14,979.65
		55 Insurance—Public Liability & General	16,936.49	17,372.83
		57 Insurance—Employees' Welfare	60,193.53	76,832.57
		57 Pensions	119,053.66	156,947.20
		64 Memberships	5,662.90	6,579.73
		68 Taxes—Payroll	19,933.64	24,180.30
		69 Taxes—General	20,750.19	29,135.33
		74 Other Expenses	14,619.21	19,226.24

\$1,639,892.05 \$1,504,368.17

\$ 508,033.33 \$ 667,785.93

6900 GROUND FACILITIES DEPRECIATION

\$1,468,649.37	\$1,544,890.73	75 Aircraft	\$ 445,808.23	\$ 582,100.18
416,950.08	393,724.08	76 Aircraft Engines	185,327.37	248,726.88
253,537.62	374,850.24	77 Aircraft Spare Parts	145,375.57	156,955.80
327,566.31	301,618.12	77 Aircraft Other Equipment	134,370.79	130,572.36
284,405.50	252,343.64	78 Ground Property and Equipment.....	112,946.21	109,013.80
\$2,751,108.88	\$2,867,426.81		\$1,023,828.17	\$1,227,369.02

The CHAIRMAN: Thank you, Mr. McGregor.

Mr. FULTON: Mr. Chairman, may I ask a question about page 2. Mr. McGregor, can you give me the dates of the original appointments of the directors?

Mr. MCGREGOR: I can obtain them, Mr. Fulton.

Mr. MACDONNELL: Before we ask detailed questions about the report could we just be reminded in a word of the relationship between T.C.A. and the C.N.R., and perhaps also have a word as to the share of the time of the officials, so we will have that in our minds?

Another thing I would like to question concerns the operating reports which are broken into two—first Trans-Canada Air Lines and second, Trans-Canada Air Lines (Atlantic) Limited. Is that just a convenient division inside the four corners of T.C.A. or is there a separate corporation?

Mr. MCGREGOR: Yes, there are two separate corporations.

Mr. MACDONNELL: Well, then, when you come to the end under income accounts—oh, yes, I see they are separate there too.

Mr. MCGREGOR: The only thing that is combined, sir, is the consolidated balance sheet which is a report on a system basis.

Right Hon. Mr. HOWE: The stock ownership of T.C.A. is in the hands of the Canadian National Railways.

Mr. MACDONNELL: And, indirectly, T.C.A. (Atlantic) Limited.

Right Hon. Mr. HOWE: Yes, it is exactly the same ownership.

With respect to directors four are appointed by the C.N.R. and are also directors of the railway, and three are appointed by the government. The question was asked: When were those men appointed? Wilfrid Gagnon was appointed when this corporation was organized.

Mr. FULTON: In 1937?

Right Hon. Mr. HOWE: Yes, I think so.

Donald Gordon was appointed when he became president of the railway, succeeding Mr. R. C. Vaughan.

J. A. Northey was an original director; H. J. Symington was an original director, and at the time president of the air line.

C. P. Edwards is an original director; R. A. C. Henry was appointed in 1949; and Mr. McGregor was appointed when he assumed the presidency in 1948.

Mr. FULTON: Thank you. There was one statement you made, Mr. Howe, in reply to Mr. Macdonnell and I wonder whether I understood you correctly. It was that Trans-Canada Air Lines (Atlantic) Limited is owned directly by the Canadian National Railways. Is there not an intermediate stage? Are they not owned by Trans-Canada Air Lines which in turn is owned by the Canadian National Railways?

Mr. MCGREGOR: As far as ownership is concerned it is correct that Trans-Canada Air Lines is the only issuer of stock. That is bought by the Canadian National Railways and it in turn finances the operation of Trans-Canada Air Lines (Atlantic) Limited.

Mr. FULTON: Do they do that on a share capital basis?

Mr. MCGREGOR: All the equipment is owned by Trans-Canada Air Lines.

Right Hon. Mr. HOWE: Trans-Canada Air Lines.

Mr. MCGREGOR: It is owned by Trans-Canada Air Lines, yes.

Right Hon. Mr. HOWE: And certain equipment is allocated to Trans-Canada Air Lines (Atlantic) Limited.

Mr. FULTON: We had that all last year. Mr. McGregor, on page 5 you say "payroll chargeable to operating expenses rose by \$1,250,838". At a later

point you give us the figures on reduction of personnel, amounting to approximately a 4 per cent reduction. Can you make a comment why there was that increase in payroll directly chargeable to operating expenses in view of the reduction you show elsewhere?

Mr. MCGREGOR: Yes, payroll chargeable to operating expenses is virtually the whole payroll of the company. It arises due to the greater unit remuneration paid throughout the organization.

Mr. FULTON: There is no significance in the words "chargeable to operating expenses?"

Mr. MCGREGOR: No.

Mr. FULTON: You could have said that the payroll rose by so much.

Mr. MCGREGOR: Yes.

Mr. FULTON: That is all you mean?

Mr. MCGREGOR: Yes.

Mr. FULTON: I could figure it out, but what would be the average percentage of increase in payroll per employee? It would be quite a substantial increase would it?

Mr. MCGREGOR: I think it would be on the order of 4 or 5 per cent.

Mr. MACDONNELL: Would you say a word about commodity revenues? I notice a particular reference to commodity revenue in the Caribbean service. What is it, for one who is not familiar with your advertising other than for passenger purposes? What do you aim at in this commodity revenue? What is your plan and in what respect is commodity revenue growing?

Mr. MCGREGOR: By commodity revenue we refer to revenues derived from other than passengers or mail cargo—that is air express or air cargo. Our aim is to stimulate that business so that it comes close to filling the cargo capacity which is an automatic by-product of aircraft flown for passenger purposes.

Mr. MACDONNELL: What percentage of your capacity for cargo are you using now?

Mr. MCGREGOR: I would think in the order of 70 per cent.

Mr. MACDONNELL: Do you have any special cargo planes?

Mr. MCGREGOR: We have one aircraft assigned for cargo purposes and fitted without seats.

Mr. MACDONNELL: Is that likely to develop?

Mr. MCGREGOR: Yes, I would think it is very likely to develop because it has progressed very extensively in the United States in the past four or five years. In the United States they are operating several scheduled cargo flights.

Mr. MACDONNELL: What percentage of that is trans-ocean? I really mean north Atlantic; I do not mean Caribbean.

Mr. MCGREGOR: The percentage of Atlantic cargo to total cargo business?

Mr. MACDONNELL: Yes.

Mr. MCGREGOR: Roughly 30 per cent.

Mr. FULTON: Mr. McGregor, you show increases in the general revenue throughout the whole field. Every detail is increased as against 1949—which is gratifying—but you also make reference to substantial services which you rendered during the time of the rail strike and the Winnipeg floods. Was the increased volume then carried a substantial part of the increase over the year or was it, in proportion to the year's operation, relatively small?

Mr. MCGREGOR: Relatively small.

Mr. FULTON: This is a general trend, you would say, rather than the reflection of an emergency situation?

Mr. MCGREGOR: It is apparent in comparison of each month with the corresponding month of the previous year, throughout the year.

The CHAIRMAN: Are there any further questions on page 5? If not, we shall turn to page 6.

Mr. CARTER: Mr. Chairman, I notice reference is made to the new service between Montreal and New York. I was wondering if the possession of Gander was an essential factor in working out the agreements necessary to set up that service?

Mr. MCGREGOR: It is difficult to say. Certainly reference to Gander or certain trading of rights with U.S. operators at Gander came into the bi-lateral negotiations. Whether or not it would have been possible for Canada to acquire the right to operate between Montreal and New York without that trading factor, is a matter of conjecture. I am inclined to think it is only a reasonable thing that a Canadian operator should be permitted to maintain a service between those two cities.

Mr. CARTER: Did it facilitate negotiations?

Mr. MCGREGOR: I think it is true to say it did facilitate negotiations.

Mr. CARTER: I was wondering whether any consideration has been given to a quicker flight between Montreal and Torbay?

Mr. MCGREGOR: Yes. It is a difficult routing problem and we are somewhat restrained by the severe weather conditions at Torbay—which this spring have been atrocious. We are, naturally, very loath to put a big aircraft in there with the risk of having it held on the ground for anything up to days. I think we can look forward to a decrease in the number of stops between Torbay and say Montreal or Ottawa.

The CHAIRMAN: Is there anything more on page 6?

We will turn to page 7.

Mr. MACDONNELL: I notice on page 7 halfway down the middle of the left-hand column "giving powerful impetus to this wider acceptance were a growing reputation for schedule reliability, the absence of any increase in the price of air transport..." and I want to raise this question. I notice that last year in this committee there was considerable discussion as to whether one would regard an operation of this kind as an ordinary commercial operation or whether one would regard it as having other aspects such as public service, prestige value, and so on. I raise this question of the air fares to ask you this: Are they being fixed on what you might call ordinary commercial considerations—that is, trying to make ends meet—because, while we congratulate you on the improvement, there is still a substantial deficit left? I raise that because I know that later on there is a reference to the service which is being given. I want to point out that this is not like a service which is given to the vast mass of the public; this is, it seems to me, a service given to people who are presumably in pretty good position to pay their way. I would like to have an answer to that—whether the restraining from increase, whether keeping fares where they were, was a matter of policy on other grounds or whether you just thought the traffic would not carry any more—that you could not raise fares any higher?

Mr. MCGREGOR: The terms of reference of the company in its original instructions of incorporation provide that the fares shall remain at a reasonable relationship to the fares of other air transportation, and that has been done. Actually T.C.A. is in direct competition with the majority of routes of U.S. air lines which closely parallel it south of the border. If the T.C.A. fare structure rose disproportionately high, as compared with American carriers, we would lose a great deal of traffic to the parallel routes south of the border. It is no great trick for an air traveller who wishes to cross the country to

cross the border twice in the process of doing it, if there is a substantial fare advantage to him by so doing.

The T.C.A. domestic fare structure is related both to that fact and, as you say, to normal commercial considerations of the operation. It varies a few fractions of a cent either side of 6 cents per passenger mile, depending on the length of the flight leg involved—inversely as the flight length, by the way.

Mr. MACDONNELL: Would it be fair to say that you are up to your ceiling—which is the competitive rates of others?

Mr. MCGREGOR: It is a relative matter. If you raised fares you would lose traffic; whether the additional revenue from the increase in fares would more than offset the loss of traffic would depend entirely on the amount of the fare increase.

Mr. MACDONNELL: Let me ask you this final question. You are governed in your figuring of fares purely by ordinary business considerations?

Mr. MCGREGOR: That is correct.

Mr. FULTON: You said last year pretty much along the lines of what you have just said. I asked you "Are you approaching the position where an increase in the net fare charged to the passenger would bring into effect the law of diminishing returns?" You said: "I am certain of it." Then, in elaboration I asked: "By virtue of the competition factor, which you must meet?" and you answered: "Both by other air lines and by rail."

That would still be a statement of your views at the present time?

Mr. MCGREGOR: Yes, that is correct.

Mr. FULTON: Then, on page 7, I would like to ask questions in regard to two matters. One is just a small point, for information. Halfway down the righthand column you refer to the reduction of standard fares and the family fare plan. I remember that last year we had a short discussion about the thing and I think you called it an air credit card.

Mr. MCGREGOR: Yes, we have air travel cards.

Mr. FULTON: My recollection is you indicated you were not pressing it at the present time?

Mr. MCGREGOR: We do not press it unduly. It involves a rather substantial deposit on the part of the holder of the card—\$425. It is a convenience for the type of passenger that is using air service a great deal. Otherwise, it is purely there as a convenience. It involves billing rather than collection for each ticket as it is sold, and this accounting expense is not entirely offset by the deposit in the possession of the air line.

Mr. FULTON: It does not?

Mr. MCGREGOR: No. We are glad to extend it as a service, particularly to the repetitive traveller but, apart from that, there is no reason why the air line should stimulate it in preference to the normal sale of tickets.

Mr. FULTON: That is interesting, and one of the things I was going to come at. Frankly, when it was discussed last year I had not heard of it before. The first time I met up with it from one of the personnel of the company was this year when I was travelling. It was mentioned that you have an air travel card, so I was wondering why you were not advertising that more. You have probably answered it in that it is not that much of an advantage to the company to do so. Do you give \$425 worth of travel for \$400?

Mr. MCGREGOR: No, there is no reduction at all. The deposit is to protect the company's revenues, the holder of the card must maintain a deposit with the company of \$425 and he is billed currently as he uses air travel in order to re-establish that \$425 deposit.

Mr. FRASER: He would have a certain amount of priority too, on seating?

Mr. MCGREGOR: No.

Mr. MACDONNELL: What does he have?

Mr. FULTON: He does not have to carry money or cheques?

Right Hon. Mr. HOWE: It is a convenience if you are travelling all over the United States.

Mr. MCGREGOR: Or all over the world.

Right Hon. Mr. HOWE: Yes, because you can just put the card down on the counter, get your ticket, and pay the bill when you get home. As far as Canadian travelling is concerned it is no convenience at all.

Mr. MCGREGOR: You might be interested in knowing that there are 1,800 of the travel card accounts in existence.

Mr. FULTON: Are they used mostly by the companies who are having their representatives travel a lot?

Mr. MCGREGOR: Yes.

Mr. FULTON: We had a great deal of discussion on mail traffic last year. I see that you say in this year's report that "towards the end of 1950 there were indications that it would be possible to negotiate a mail contract having as its essential features a sliding scale of payments based upon increasing mail volume and very substantial reductions in payment...". Has any further progress been made in that direction?

Mr. MCGREGOR: Yes, the contract has been completed since the effective date of this report.

Mr. FULTON: Can you give us the details of it or what benefits you expect to derive from it?

Mr. MCGREGOR: Yes, I can give that to you in detail.

The benefits derived are perhaps a little questionable in that they involve the performance of a great deal more transportation of mail but it does place mail carriage on a basis of payment that is directly related to the amount of work done—that is remuneration is based on the ton mile unit. It provides for a quite lengthy program of continued expansion of mail carriage.

It is perhaps somewhat outside the bounds of the 1950 report, but if I may I could give you the details. During 1950 the average per month load of mail was in the order of 350,000 ton miles and the contract as now negotiated provides the following: January 1951, 350,000 ton miles for which remuneration would be \$460,000, or \$1.31 per ton mile; in February 375,000 ton miles, payment \$467,000, the rate per ton mile being down from 1.31 to 1.25.

Mr. FULTON: That is cents per ton mile?

Mr. MCGREGOR: That is dollars per ton mile. Now, will I go on reading those three figures by months?

	Ton-miles	Payment	Per ton mile
March	400,000	\$473,000	\$1.18
April	425,000	480,000	1.13

Now, that condition remains through April, May, June, July, August and September. In October there is a further calculated rise in volume to:

October	450,000	\$487,000	\$1.08,
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and that continues from there on.

Mr. FULTON: Well, then, the effect is that you have not been able to negotiate contracts providing for any higher net return per ton mile?

Mr. MCGREGOR: That is correct.

Mr. FULTON: In fact, it is the very reverse, a lower return.

Mr. MCGREGOR: A lower return per ton mile but a committed increase in volume by the post office and, therefore, an increase in the gross revenue from mail.

Right Hon. Mr. Howe: The result was that at Christmas and, as was much the case in the rail strike, the post office dumped a greatly enlarged amount of air mail. They pay for it now.

Mr. FULTON: Anything in excess of these agreed upon amounts you are now to be paid for.

Mr. MCGREGOR: Yes.

Mr. BENIDICKSON: If you had less than the estimated monthly volume would you still be paid the agreed charge?

Mr. MCGREGOR: Yes, the figures given were minima to which the post office is committed.

Mr. FULTON: It is difficult for a person who does not know all your traffic factors and so on to assess that, but my recollection of last year's evidence was to the effect you felt you were carrying mail at less than you should be receiving for it. You were rendering service for less than you should be receiving, at least on a competitive basis with other Canadian air lines and certainly with respect to some American air lines.

Mr. MCGREGOR: I would say that is only entirely correct with respect to certain months. We could have been required to carry an unlimited quantity of mail in any one month and we had a fixed remuneration per month. The result was that in the heavy mail months such as December we were carrying mail at a very low rate of return per ton mile.

Mr. FULTON: Does that now call for a monthly rate of \$525,000?

Mr. MCGREGOR: No.

Mr. FULTON: Do you feel that that sliding scale you have now arrived at will give you the same relative position or advance as \$520,000 flat would have given you?

Mr. MCGREGOR: It is not as good as we hoped for but it is a better arrangement than we had before.

Mr. MACDONNELL: Do you make or lose money out of it?

Mr. MCGREGOR: We believe we make money out of it.

Mr. FULTON: If that is the case I suppose it is better. Does the Deputy Postmaster General still have a pass on the Trans-Canada Air Lines?

The CHAIRMAN: Just to have this on the record, Mr. McGregor, what is the end result as to the firm commitment for mail carriage this year under the new contract?

Mr. MCGREGOR: 5,025,000 ton miles.

The CHAIRMAN: Would you mind giving the result in dollars?

Mr. MCGREGOR: \$5,741,000.

Mr. McCULLOCH: Why do you prohibit pipe smoking and let cigarette smokers smoke cigarettes on the planes?

Mr. MCGREGOR: It seems to be a well established fact that pipe smoke is more objectionable to other passengers than is cigarette smoke.

Some Hon. MEMBERS: Hear, hear.

Mr. McCULLOCH: I do not agree with that.

Mr. MCGREGOR: It depends, sir, a great deal on the condition of the pipe.

Mr. McCULLOCH: I know that coming down from Churchill the other day the passengers were all smoking cigarettes and I could not smoke a pipe for six hours.

The CHAIRMAN: Now, we are on page 8.

Mr. MACDONNELL: Without wanting to get involved in a complicated discussion of cost accounting, could you indicate just how far you go—I know it is a difficult thing to do—in assessing your cost of doing that; I mean, I would like

to know how you arrive at your cost of mail carriage, as compared to the carriage of passengers.

Mr. MCGREGOR: As you say, it is a very difficult thing to say that a ton of mail costs so much to carry and a ton of passengers costs so much to carry, but this is true, and it comes up very strongly in discussions with the post office, regarding mail pay, that the company is relieved of certain expenses in connection with the transportation of a ton of mail that it must incur with the transportation of a ton of passengers such as feeding, ticketing, escorting to the aircraft, and away from it, and the type of thing that we do not have to do in connection with the transportation of mail.

Mr. MACDONNELL: And advertising?

Mr. MCGREGOR: Advertising is another item. In fact, all sales stimulation for that matter. But there are other influences that are not entirely to the air lines' advantage in connection with the carriage of mail. We must, for instance, in setting flight schedules observe to some extent the requirements of the post office. It would be quite wrong for us to start an evening flight from Montreal or Toronto on a time schedule that would just miss the day's collection of business mail, so we have to arrange our flight scheduling to meet post office requirements, and that may be expensive; but it is very difficult to do otherwise. We do know the ton mile cost of overall air transportation and we feel in the case of mail the ancillary expense in connection with mail probably does not greatly exceed the economies that are involved in the transportation of mail, as compared to passengers.

Mr. FULTON: I was of the opinion and even hoped that the discussion on this matter in the committee last year was of some help in getting a very favourable mail contract. Perhaps it is too early to ask you to comment on this present contract, although you told us it is better than it was but not as good as you hoped for. I would, however, say at this point that I hope next year when you have completed a year's operation under the new contract you will have devoted a part of your annual report to an analysis of the results, in case you might want further help from this committee, and then we will be in a position to do so next year. Perhaps it would not be fair to go further than that at the present time.

Mr. KNIGHT: I have a couple of small questions to ask on behalf of Mr. MacInnis. One of the questions concerns a particular schedule from Vancouver eastward. Trans-Canada Air Lines flight No. 2 from Vancouver to Toronto and Montreal appears to have no connecting plane for Ottawa, and as I understand it, one has to wait at Toronto from 9.35, at night, until early the next morning. I wonder if that is right. That does not sound right, especially when you know flight 344 to Ottawa leaves Toronto just ten minutes before flight No. 2 from Vancouver arrives. Is there a reason for that schedule?

Mr. MCGREGOR: Yes; perhaps Mr. MacInnis' point may be dealt with by my saying that this is a temporary situation until such time as the full summer frequency goes into operation between Toronto, Ottawa and Montreal. The number of flights then becomes such that it would be unnecessary to wait in Toronto for any great length of time.

Mr. KNIGHT: Even for ten minutes.

Mr. MCGREGOR: No, it is not quite that good.

Mr. MUTCH: I think I must have caught most of those fifteen per cent of trips that did not arrive on time last year.

Mr. KNIGHT: It appears to be a seasonal matter? Might I ask what is the comparative length of the seasons? What is the length of the season in which this sort of thing can happen as compared with the rest of the year?

Mr. MCGREGOR: It normally would not have happened had not the increase in traffic on the transcontinental operations produced an advance of the fourth

flight from Winnipeg that was originally scheduled to go into being on April the 29th, but due to the increase in traffic which took place it was put into service on April 1st, and the additional flights between Ottawa, Toronto, and Montreal will not go into service until April 29th, so there is a month when there is partial transcontinental flight in operation for which connections were not provided. There will be nine flights a day between here and Toronto beginning May 1st.

MR. KNIGHT: Is there any reason why these planes should not connect? For instance, might not flight 344 delay its start until 9.50 when the connection could be made? Now, that is only fifteen minutes from the arrival of the other plane?

Right Hon. MR. HOWE: The trouble is that Mr. MacInnis is going further than the flight goes. The flight is not scheduled beyond Toronto. If he wants to go beyond, he should take a flight that goes beyond that point.

MR. MCGREGOR: It now leaves at 9.25, and the obvious belief would be that that would normally provide connections but it does not. The business of unloading passengers' baggage, and transshipping it to another aircraft requires a schedule having a longer gap than provided for here—ten or fifteen minutes; in order to provide a good connection with a transcontinental aircraft one would want to have at least forty-five minutes as an interval.

MR. MUTCH: One other question, flight No. 30 from Toronto here. I think I am right on that. Is it run at the particular time it does run because of connections with any other air line? I have the unenviable record of having missed flight No. 30 four out of five times and on two occasions I saw flight 30 leaving the ground as we were landing. I have not any complaint about being held up and I might say that on one occasion it did not make any difference because the House of Commons was spared a speech on that occasion. Whenever I make enquiries about this the answer I always get is: there is a short gap in the winter months during which time No. 4 is one of the runs which is frequently late; and you get on late and you lose time and I think perhaps that your worst connection is at Toronto. Now, does this flight No. 30 have to meet any other aircraft or any other line at Montreal or are you just working that schedule a mite too thin in the winter?

MR. MCGREGOR: Flight No. 30 is a connection with flight No. 22 to Moncton which leaves Montreal at 10.00; and flight No. 30 is scheduled to arrive in Montreal at 9.30, so it is necessary that that flight leave Toronto on schedule, but another thing occurs too. If you start tampering as we have discussed in correspondence, Mr. Mutch, with flight schedules, the thing becomes cumulative. The aircraft flying between Montreal and Toronto particularly the DC-3's are planned to a very high utilization and if one flight in one direction is delayed as little as half an hour succeeding flight departures are also delayed.

MR. MUTCH: It did occur to me that that was a particularly close connection, and No. 4 usually feeds quite a number of people onto No. 30 and very often receives a fair number of members of parliament, usually three, four or five are on that plane very often. Under those circumstances I raised the question merely to say that thirty minutes, which, I believe, is what we had—

MR. MCGREGOR: One hour and fifteen minutes.

MR. MUTCH: Well, it was not enough during the winter on four or five different occasions. The only time I had any major complaint about it, it was rectified very quickly. I did not know about the connection with the maritimes and that is the reason I asked. I am satisfied.

MR. MORR: I would like to ask a question with regard to the facilities at the airports. Are the facilities at the airports being increased to cope with the increased passenger traffic? Take Calgary for instance. There are times when you have quite a delay there going through to the coast. The plane gets in on

time but is late in getting away. It appears to me that there is an understaff or something. The staff there works hard enough, there is nothing wrong with the personnel, but it seems to me they are understaffed.

Mr. MCGREGOR: The number of air line personnel at airports is directly related to the volume of traffic and the frequency of flights. Occasionally an aircraft operation goes off schedule, resulting in, say, two aircraft, one from Edmonton and a transcontinental flight arriving in Calgary at the same time. The size of the crew is calculated to the normal handling of the flights on schedule, but if we get what we call ramp congestion through an irregular operation of that kind there is bound to be some delay with respect to the rapidity with which the flights are handled. The transcontinental flights are supposed to be on the ground twenty minutes and I am assuming here that there is no mechanical difficulty to be coped with.

Mr. MOTT: I remember last year on the way to the coast we were held up twenty minutes leaving Calgary.

Mr. MACDONNELL: I was going to ask a question in geography. When one goes from Prestwick to Iceland, how much closer is one to Goose Bay than he was when he left Prestwick? In other words, why do you go to Iceland? I did that last summer and on the face of it it appeared to me it was because of strong headwinds but that was not true that day.

Mr. MCGREGOR: Nearly all our westbound flights in winter go to Iceland, and you are very much closer to Goose Bay when you get there than you are at Prestwick. The map in the middle of the report may be of help on that, Mr. Macdonnell.

Mr. FULTON: Whose responsibility is it to provide airport buildings and facilities at major airports, following up what Mr. Mott discussed with you a moment ago? Calgary, which is a stop on the Trans-Canada Air Lines, is perhaps one of the poorest served from the point of view of buildings and so on that can be found. Is it entirely the responsibility of the city of Calgary to provide those buildings? Who operates the airport in Calgary?

Mr. MCGREGOR: The Department of Transport. There are some exceptions, Vancouver and Edmonton and there is also Halifax, which is under the navy.

Mr. FULTON: So any question of improvement at Calgary is one for the Department of Transport, not for the Trans-Canada Air Lines.

Mr. MCGREGOR: Yes, things will be improved there soon; I believe plans are drawn because those buildings are of a temporary nature at Calgary.

Mr. FRASER: In this paragraph on page 8, airway facilities, you mention that important runway extensions took place in Toronto and Sydney and instrument landing equipment was installed at several more points. Is this equipment being installed so that you can land in fog?

Mr. MCGREGOR: Yes, it reduces the limits of ceiling and visibility under which planes can land; it is known as I.L.S.—instrument landing system.

Mr. FRASER: You are able to land on a field but you cannot take off?

Mr. MCGREGOR: No, we can take off too.

Mr. FRASER: You can take off just the same?

Mr. MCGREGOR: Yes.

Mr. FRASER: Well, is that to help in making connections at Moncton where there are conditions of fog a good deal of the time?

Mr. MCGREGOR: The installation of I.L.S. has contributed greatly to the regularity of the schedule but it does not mean that in complete fog conditions you can operate. It does reduce our operating limits as to ceiling and visibility; with this equipment these are less binding. You might have to maintain an operating regulation of say a 500-foot ceiling and a mile visibility but when I.L.S.

is installed you may be able to reduce those conditions to 200 or 300 feet and a quarter of a mile visibility, which covers a large proportion of the cases.

Mr. GEORGE: I think we ought to correct the impression of the fog conditions at Moncton as mentioned by Mr. Fraser. There is never any fog there and the airport is equipped with I.L.S. and all the trans-Atlantic flights have to use it this time of the year because the other fields are fogged in.

Mr. FRASER: When I have been trying to get to Montreal they could not land at Moncton. We had to go back to Gander again.

Mr. GEORGE: That happens once every ten years.

The CHAIRMAN: I do not think you should blame that on the fact that Mr. Fraser was aboard.

Mr. GILLIS: Might I ask Mr. McGregor a question on airway facilities? A year ago I was of the opinion that a survey was being made of the Halifax area with the end in view of either using the Eastern Passage airport or establishing a new airport for that area. I notice here that you say a lot of projects had to be abandoned because of other expenses. Now, that Halifax situation is pretty bad. Many times passengers who ordinarily want to land in Halifax must go through to Montreal and often when at times you make a forced landing passengers want to disembark and go through customs in Halifax but are not permitted to do so, they must go through to Montreal. Is anything being done to remedy that?

Mr. MCGREGOR: Yes—you are speaking of the trans-Atlantic westbound flights. That point you mention has been taken up with the Department of Immigration and they have agreed in the event of a non-scheduled operation going into Halifax there will be customs clearance of passengers for points in the maritimes; they will be allowed to disembark there. On the question of airports, a survey has been completed and I believe a site which is acceptable to the technical people has been decided on. I do not think anything more than that has been done so far. It, by the way, is outside the normal fog belt which Dartmouth is in.

Mr. MOTT: What progress is being made, if any, as regards the Department of Transport taking over the Vancouver airport? Could you say anything about that?

Mr. MCGREGOR: I do not know what the progress is or what the position is.

The CHAIRMAN: Are there any other questions on page 8?

Mr. FULTON: Perhaps Mr. Howe would know.

Right Hon. Mr. HOWE: Vancouver owns the airport. During the last war we had an arrangement under which the city continued to operate the airport and the government paid the bills. That was very unsatisfactory from the government's point of view. When the war was over we said "You own most of the airport and either you operate it or we will operate it, one or the other. You can turn the airport over to us, but, if you want to operate it you will have to pay the bills." The city chose to operate it.

Mr. MACDONNELL: Perhaps you pay the bills indirectly out of what they charge you?

Right Hon. Mr. HOWE: The charges are all right and I think the operation is doing all right. However, we did not want an arrangement whereby the city spent the money but we provided it.

The CHAIRMAN: Shall we deal with page 9?

Mr. FRASER: It mentions here that there was quite a decline owing to the fact that the immigrant charter plan was not in existence. That has started up again, with this government, so will that make a difference this year?

Mr. MCGREGOR: Yes, although what has started now is not the old charter plan.

Mr. FRASER: It is a different type?

Mr. MCGREGOR: Yes.

Mr. FRASER: What difference would it make, or have you any idea?

Mr. MCGREGOR: Up until the beginning of April we had carried approximately 2,000 passengers under the new plan, all of which are paying the standard air line fares, so there is quite a substantial element of revenue in that for the air line.

Mr. FRASER: They paid the full fare less \$30 and the government pays the \$30, is that it?

Mr. MCGREGOR: No, the immigrant pays the difference between the regular fare and 55 pounds sterling or \$160, roughly.

Mr. FRASER: If the immigrant has extra baggage what do they do about that? Ship it by boat?

Mr. MCGREGOR: Yes, unless the immigrant wishes to pay air cargo for it.

Mr. FULTON: In effect you get full fares and the government subsidizes the difference between what the immigrant can pay on the full fare and \$160?

Mr. MCGREGOR: The government subsidizes the immigrant, not the air line.

Mr. FULTON: Yes.

Mr. MCGREGOR: The amount of the subsidy is not determined by what he can pay. The fixed amount of the government contribution to his transportation is \$160.

Mr. FRASER: Which the government gets back eventually?

Mr. MCGREGOR: I do not know what the arrangements are between the government and the immigrant.

Right Hon. Mr. HOWE: It is just to provide more transportation. We found we were being limited in the number of immigrants we could take from the U.K. due to lack of boat transportation, so the government made this arrangement. The immigrant pays what he would pay if he could travel by boat, and the government pays the difference.

Mr. BENIDICKSON: This has just been in effect from the 1st of January to the end of March?

Right Hon. Mr. HOWE: Yes.

Mr. FULTON: Some of the questions I have regarding page 9 will involve an analysis of the table on page 10.

Mr. McGregor, you point out "of the \$1,526,412 net deficit, the North Atlantic services were responsible for only \$275,922"—which works out to approximately 18 per cent of the net deficit. Can you say what the percentage was last year—of the net deficit?

Mr. MCGREGOR: In 1949?

Mr. FULTON: Yes.

Mr. MCGREGOR: Yes.

Mr. FULTON: Incurred by the North Atlantic and the Caribbean.

Mr. MCGREGOR: I would want to look that up, but the figures are here.

Mr. MACDONNELL: The result of that is that a very considerably large part of this deficit is incurred in the Caribbean service?

Mr. MCGREGOR: That is true but there is a point that has to be considered in comparing those two sets of figures. The southern operations to the Caribbean have a strong seasonal fluctuation in traffic as has the North Atlantic, but those two fluctuations are out of phase—in other words, the hump in the southern operations occurs during the winter months exactly at the time the

Atlantic is at its lowest ebb. It makes for very efficient use of equipment and crews and the whole organization of the company.

If the southern operation were suspended it would not be the case that the company would be relieved of the deficit apparent in the southern operations because that deficit would simply transfer itself to the North Atlantic.

Mr. MACDONNELL: What you mean is the southern operation carries part of the general overhead and so on, but can you estimate what the result would be? In other words, you are saying that if you shut off the Caribbean you would not make the apparent showing that one would first of all guess, because you would be carrying the heavier load on the Atlantic service? Presumably, you could give an approximate figure as to what that would be? You could estimate what that was, roughly?

Mr. MCGREGOR: I would think it would be fair to assume that the deficit made good, or made bad as the case may be, would be transferred to the North Atlantic operation because the revenues from the southern operation more than offset the direct expenses involved.

Mr. MACDONNELL: When you say that are you including such things as wear and tear on your equipment, or are you just looking at a purely operating figure?

Mr. MCGREGOR: No, I am considering all the direct expenses, maintenance of the aircraft, payment of crews, purchases of fuel and so on.

Mr. MACDONNELL: In other words you say that they would be idle and that work down there costs you very little?

Mr. MCGREGOR: That is the case. We could not reduce the establishment of aircraft or the establishment of trained crews in response to these seasonal drops in traffic on the North Atlantic.

Mr. FRASER: Then your southern timetable is cut during the summer months?

Mr. MCGREGOR: Very appreciably—down to virtually the lowest limit that will allow us to maintain our licences down there.

Mr. FRASER: And there is a limit on that?

Mr. MCGREGOR: Yes.

Mr. FULTON: We had quite a discussion on this point last year, Mr. McGregor, and I was wondering in connection with the table on page 10 if you could give us a breakdown as between the North Atlantic and the Caribbean service at the same time as you are answering other questions, or do you have those figures available here?

Mr. MCGREGOR: Yes, we will have them available for you this afternoon if we are meeting then.

Mr. FULTON: Now just to ask for an elaboration on something Mr. Macdonnell asked. You said I think that the operating revenue of the Caribbean service did meet the operating expenses. Does your answer also embrace depreciation of aircraft while they are being used in the Caribbean?

Mr. MCGREGOR: No, we do not regard that as a direct operating expense. It is quite possible the revenues do meet that also.

Right Hon. Mr. HOWE: I think Mr. McGregor was explaining that depreciation goes on whether you use an aircraft or not. Mr. McGregor was saying that if the planes were not used on the South Atlantic the depreciation expenses would be charged to the North Atlantic—and the interest on the investment as well.

Mr. FULTON: Then your depreciation is at the same rate whether the planes are actually in service or not?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: That would affect your maintenance expense?

Right Hon. Mr. HOWE: Maintenance costs are covered by the revenue from the South Atlantic operation.

Mr. FULTON: Is your traffic curve on the North Atlantic still very humpy?

Mr. MCGREGOR: Yes.

Mr. FULTON: I mean on the North Atlantic.

Mr. MCGREGOR: We expect the immigration plan referred to will remove a good deal of the fluctuation because it provides us virtually with capacity loads westbound for the duration of the plan.

Mr. FULTON: Do your forecasts envisage eventually concentrating practically entirely on the North Atlantic and withdrawing from the Caribbean, if you can level that out?

Mr. MCGREGOR: No, for the reason I mentioned. The southern operation provides a very convenient method of using equipment and crews during the period of reduced two-way loads on the Atlantic—which still exists to a marked degree and always will.

Mr. FULTON: That is what I want to get at. I remember last year I made the same suggestion and received the same explanation you make now. Therefore I ask you this year whether you visualize the levelling off of that hump in the North Atlantic?

Mr. MCGREGOR: Only in one direction and only due to this special immigration which as the minister has said is because of a shortage of shipping space and we do not regard that as permanent.

Mr. MACDONNELL: What is its duration?

Mr. MCGREGOR: At the present time I believe it has been authorized for all of this year.

Mr. FULTON: Mr. McGregor can you foresee any improvement for your operation in the Caribbean? You refer in your report to restrictions which have been placed in your way by the countries down there. I remember we had a discussion previously on some sort of trade treaty. I think it was referred to mainly in connection with Canadian National Steamships but what is the possibility of improvement in that regard for T.C.A.?

Mr. MCGREGOR: The situation is tied up directly with all the monetary restrictions which exist between dollar and sterling areas. There are severe restrictions placed on any potential traveller from the Caribbean area into a dollar area. His travel is restricted to essential business or essential personal travel such as for medical care. There is no possibility of a resident of Trinidad buying a T.C.A. ticket for a point in Canada simply because he wants to come to Canada.

I would be the last one to venture an opinion as to when those restrictions might be relaxed.

Mr. BENEDICKSON: Are they lenient in the matter of people from the West Indies coming up here to go to school?

Mr. MCGREGOR: Fairly so. There is a lot of traffic of that type.

The CHAIRMAN: I wonder if it would be helpful if we had a breakdown of traffic as between the North Atlantic and the southern route?

Mr. FULTON: I asked for that.

The CHAIRMAN: No.

Mr. FULTON: I meant to include the whole thing in the two tables on 9 and 10.

Mr. FRASER: In this page 9 and the matter of increased competition on the North Atlantic route, you mention British Overseas Airways Corporation. Is T.C.A. trying to improve the comforts of the planes in order to meet that competition?

Mr. MCGREGOR: Yes.

Mr. FRASER: I understand that BOAC have been doing everything possible to get passengers and give them every possible comfort?

Mr. MCGREGOR: Well, the major difference between the two operations at the present time lies in the fact that BOAC are operating an aircraft known as the Strato cruiser which has two decks, the passenger lounge being in the lower deck, and also berths which our aircraft, I am glad to say, have not. It is questionable whether the so-called advantages of the Strato cruiser are as real as they appear in publicity.

Mr. FRASER: Well BOAC planes are supposed to be a little quieter?

Mr. MCGREGOR: Yes.

Mr. FRASER: What are you doing to try and eliminate that noise? You have eliminated it to some extent?

Mr. MCGREGOR: T.C.A. technical people have been working for two and a half years on the development of what is known as the cross-over exhaust manifold, the function of which is to conduct the exhaust from the inboard sides of all four engines to the outboard sides.

A prototype aircraft has been flown with an installation of that kind and the reduction of the noise level has been very marked. T.C.A. has placed an order with Canadair for the production of four sets of that type of exhaust manifold and the associated changes in the cowlings of the engines and the delivery of that is expected about mid-summer.

There is no question about the effectiveness from a noise standpoint but it remains to be seen whether the problems in connection with cooling under all conditions have been satisfactorily met, and that will involve a period of test. We are reasonably certain the problem has been solved but it would be too early to say that it definitely is.

Mr. FRASER: You mentioned that you are glad there are no beds on T.C.A. Why?

Mr. MCGREGOR: Well, we have received reports from passengers—including one or two of our people—that vary widely in the acceptance of the arrangements. The making up of the berths requires the passengers who are about to occupy them and have been occupying the related seats to go somewhere else. Something like two and a half hours is involved in making up the berths and in some cases the bed is situated over the top of other seats and the passengers who have to remain in those seats are in very much of a kennel.

Right Hon. Mr. HOWE: If this committee will stand for the deficits of BOAC we will run some sleeper planes. You can only put half as many passengers in a sleeper plane as in a sit-up plane.

Mr. FRASER: The extra charge for those berths would not make up for that?

Mr. MCGREGOR: Nothing like it. The charge is \$25 and the weight of equipment is approximately 100 pounds per berth which is simply 'lift' wasted.

Mr. FULTON: In that connection has Mr. Howe any figures—we have none at all—with respect to the statement last year that the BOAC deficit was being reduced?

Right Hon. Mr. HOWE: It has been reduced but it is still a very, very high figure.

Mr. FRASER: Is BOAC subsidized by the British government?

Right Hon. Mr. HOWE: It is owned by the British government.

Mr. MOTT: I would like to ask Mr. McGregor if he has any thought at all of placing on T.C.A. planes loud speaker systems like they have on American planes. We have a wonderful lot of country and unless the passengers know Canada very well they may fly over beautiful country without knowing where

they are. I have heard comments from people flying on American aeroplanes about how great it was to hear over the loud speaker just what they were passing over—mountains, lakes, and so on. It seems to pass the time away and it gives instructive ideas as to what they are passing over.

Mr. MCGREGOR: There are two very strong schools of thought on that. There is no great difficulty about installing that type of equipment in an aircraft but most people, even in the daytime, are much more anxious to sleep than to be disturbed by periodic announcements.

Some Hon. MEMBERS: Hear, hear.

Mr. FULTON: Could you not do it with earphones?

Mr. MCGREGOR: That would be difficult.

Mr. MOTT: I have never heard any objections against it from those travelling on American planes, but I have heard some speak in favour of it.

Mr. BENDICKSON: I have heard some complaints.

Mr. MUTCH: You mentioned a moment ago that some equipment is being produced for you by Canadair. Was that designed by your own technical staff?

Mr. MCGREGOR: Yes.

Mr. MUTCH: About a year ago you told us you spent a good deal of time and money on it and the original manufacturers of the aeroplanes had done so too. This device which you are hopeful of is your own production?

Mr. MCGREGOR: Yes, there are three different developments of that nature: one by Canadair; one by Rolls Royce; and one by ourselves. Canadair abandoned their work just about a year ago.

Mr. FULTON: Do we have to pay the whole cost of the installation or have you been able to make any arrangements with the manufacturers?

Mr. MCGREGOR: I am inclined to think that we will have to bear the whole cost because the period of time involved has exceeded the warranty agreement of the original purchase of the aircraft and it is not their development.

Mr. FULTON: They will not accept then, as far as you know, any suggestion that it was an original error and therefore they are partly responsible?

Mr. MCGREGOR: No, I do not think it was an original error. It was understood that it was a condition to a degree inherent to the installation.

Mr. CARTER: Will this new manifold development increase the power of the engine or any engine?

Mr. MCGREGOR: The over-all efficiency of the aircraft is expected to rise slightly due to the new cowling arrangements—bringing about aerodynamic improvement.

Mr. CARTER: Does that improve starting in cold weather?

Mr. MCGREGOR: It will have no effect on that—there is virtually no back pressure, or other changed engine conditions.

Mr. FULTON: Well although the warranty period may have expired is it not a fact that the defect—I will call it that—became obvious within the warranty period and it is simply a case that no one found out how to cure it within the warranty period? Therefore, is it not still within negotiation that they should pay part of the cost of fixing it?

Mr. MCGREGOR: It is a moot point but I would be disinclined to spend any legal money on it. If you remember the wording, which we discussed last year, it is rather loose.

Mr. FULTON: Their attitude is not agreeable.

The CHAIRMAN: I wonder if your recollection as to the nature of that guarantee is as accurate as mine. I have a recollection to the contrary, and perhaps the minister would help us out.

Right Hon. Mr. HOWE: There was no warranty, was there, Mr. McGregor, as to the noise other than it would be competitive with other aeroplanes?

Mr. MCGREGOR: No, except that it should be competitive with other aircraft—which it has been for three years.

Mr. MACDONNELL: To go back to Mr. Fulton's point, I have only flown the North Atlantic once, but I was tremendously struck by the fact that when I got back to Montreal and into a small two engine plane the difference was unbelievable.

Right Hon. Mr. HOWE: That will be the case; the larger cylinder allows more noise to reflect, to a larger extent. A larger plane is always noisier than a smaller plane.

Mr. MACDONNELL: What about competitive planes?

Right Hon. Mr. HOWE: I do not think the noise in the present plane is any greater than the noise in comparable planes; for instance in the DC-6's or a Constellation the noise is about the same.

Mr. CARTER: Is not the disadvantage of noise offset to a great degree by the greater dependability of the plane?

Mr. MCGREGOR: We certainly think so.

Right Hon. Mr. HOWE: On the Korean airlift, our efficiency is very much higher than that of any other operation there.

Mr. FULTON: Certainly, from what is being said at the moment I think it would put the seal on any suggestion of getting money out of Canadair for this.

The CHAIRMAN: I suggest you read that contract again, Mr. Fulton; my memory of it does not agree with yours at all. My recollection is that it was a competitive guarantee and that the company has met that.

Mr. FULTON: I am purposely trying to phrase my question so that we will not bring in the discussions of last year, but I think that this firm, Canadair, which has had a good deal of government contract work in the past and will in the future—I think it should be suggested to that firm that they have some responsibility because Mr. McGregor has told us they were working on this noise factor and were not able to find a solution, and now that a solution has been found, and although the warranty period has expired, I should think, or hope, that strong representation will be made that they have some responsibility in the matter and should share in the cost. In other words, you are going to have to pay the whole cost yourself.

Mr. MCGREGOR: That is correct.

Mr. MACDONNELL: I notice Mr. McGregor said it was a moot point and while I share his hesitation in spending legal money, nevertheless if it is moot enough it might be worth further investigation. However, I think we can follow the chairman's suggestion and read the contract. Might I ask one more question on page 9? In the Trans-Canada Air Lines (Atlantic) Limited, Detail, you say that a charter operator was licensed to operate between Montreal and continental Europe. Might I ask for particulars?

Mr. MCGREGOR: The operator referred to is Curtiss-Reid, and that paragraph perhaps is not too accurate in that it implies that the licence was granted last year. Actually the licence was granted to Curtiss-Reid of Canada to carry on charter operations both overseas and domestic as far back, I think, as 1946.

Mr. MACDONNELL: By the Department of Transport?

Mr. MCGREGOR: The Air Transport Board.

Mr. MACDONNELL: So this charter operator has been in possession of a charter for how long?

Mr. MCGREGOR: The licence was granted in 1946 or 1947, I believe it was 1946, but it was never exercised overseas until last year.

Mr. MACDONNELL: Just the operations referred to here, between Montreal and continental Europe?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: What type of plane does this company use?

Mr. MCGREGOR: It used a DC-4.

Right Hon. Mr. HOWE: They are using it no more, they piled it up on a mountain over in Switzerland.

The CHAIRMAN: Page 10.

Mr. FRASER: On page 10, mail ton miles. Does this mean the mail tonnage was cut considerably there?

Mr. MCGREGOR: On the overseas operation, yes, but the reduction is small.

Mr. FRASER: Why would that be?

Mr. MCGREGOR: Just that the amount of mail the post offices gave us was less. Actually it is only about a 10,000 ton miles decrease.

Mr. FRASER: Yes, but we would have thought that the mail ton mileage would have gone up.

Right Hon. Mr. HOWE: It has gone down correspondingly as we withdrew our troops from Europe. It was high when we had troops overseas. All the westbound mail from England is put on B.O.A.C., and we only carry the east-bound mail. It is not very good business, as a matter of fact.

Mr. MCGREGOR: There are several operators, of course, on the North Atlantic, and the activity of the post offices other than Canadian with respect to how much mail they give to each carrier is a matter of internal arrangement. In 1950, we got next to nothing of westbound mail from the British post office.

Mr. FRASER: They put it all on their own planes?

Mr. MCGREGOR: Yes, and I am glad to say the reverse is true.

The CHAIRMAN: Page 11.

Mr. FULTON: On page 11, the second paragraph:

On the other hand, there were moderate seasonal increases in Caribbean and Bermuda operations

Is that increase in the number of flights?

Mr. MCGREGOR: Yes, increases in frequencies.

Mr. FULTON: Was that accompanied by an increase in traffic to the same extent?

Mr. MCGREGOR: They were brought about by the increase of traffic, particularly to Bermuda.

Mr. FRASER: Under the paragraph, passenger traffic:

Passengers on the southern services numbered 14,952, an increase of 3,409.

1949 was not a full year, was it?

Mr. MCGREGOR: Yes.

Mr. FRASER: Was it a full year?

Mr. MCGREGOR: Yes, it was a full year for all the points involved, except the Tampa service which began, as referred to in the report, on April 2.

Mr. FRASER: Last year?

Mr. MCGREGOR: Yes.

Mr. FRASER: Well, this would account for the increase, would it not?

Mr. McGREGOR: No, beginning on April 2—nearly all of the heavy traffic period is past.

Mr. FULTON: Last year you incorporated in your annual report a graph showing the fluctuation between the months and the traffic carried. You do not have any similar graph in this year's report, have you?

Mr. McGREGOR: No, it could easily have been produced but as a matter of fact we observed economy in this report, and that type of somewhat redundant information is put in depending on whether the report has a spare page or not.

Mr. FULTON: We also asked for extensive information last year—and I am sure you went to a great deal of trouble getting it—on the flow of traffic, and I am not making any criticism of it, but I would like to ask you whether for purposes of comparison you have such a graph available at your head office and could you bring it in in a form which could be incorporated into the records?

Mr. McGREGOR: I think that this could be done in the form of figures, we have them by months. Would you like it in the form of numbers of passengers or revenue?

Mr. FULTON: What was the basis of your graph last year?

Mr. McGREGOR: Numbers of passengers.

Mr. FULTON: Could we have it on the same basis this year?

Mr. McGREGOR: Yes, we could.

Mr. FULTON: Have you it broken down between the three component services, domestic, north Atlantic and Caribbean?

Mr. McGREGOR: Yes, by months for 1950.

The CHAIRMAN: Page 14.

Mr. FULTON: I think you said you carried approximately 2,000 immigrants in the first three months of the year.

Mr. McGREGOR: Yes.

Mr. MACDONNELL: On page 14, you say the agreement is valid until March 31?

Mr. McGREGOR: It was later extended, Mr. Macdonnell.

Mr. MACDONNELL: That goes back to what Mr. Howe said, for the balance of the year.

Mr. McGREGOR: Yes.

The CHAIRMAN: Page 15.

Mr. FULTON: Mr. McGregor, with respect to your self-insurance fund and the overhaul reserve, could you refresh my memory by saying whether these are charged to operating expenses each year?

Mr. McGREGOR: Yes.

Mr. MACDONNELL: Do you maintain outside insurance, too?

Mr. McGREGOR: Yes, we maintain what we call catastrophic insurance which holds outside underwriters responsible for losses between \$750,000 and \$5 million with respect to any one accident.

Mr. MACDONNELL: In other words, this fund that you have here is to insure you up to \$750,000?

Mr. McGREGOR: Yes.

Mr. MACDONNELL: And you add to it at the rate of about \$400,000 or \$500,000 a year?

Mr. McGREGOR: The rate has decreased with the suspension of accruals with respect to the North American operations. The rate of increase is about \$35,000 a month with respect to the overseas operations and if the present board

policy holds, that will continue until the Atlantic company reaches a ceiling of \$3 million.

Mr. MACDONNELL: In the event of a catastrophe loss you would bear up to \$750,000 and you have no liability after that?

Mr. MCGREGOR: That is correct.

Mr. BENIDICKSON: For one accident?

Mr. MACDONNELL: And the responsibility is unlimited as to the number of accidents?

Mr. MCGREGOR: Yes.

Mr. FULTON: Continuing with this actual charge to operating expenses you have said depreciation fund in excess of capital requirement is increased by \$5 million. Is that an increase in this one year?

Mr. MCGREGOR: Yes, capital has become temporarily surplus to that extent.

Mr. FULTON: And from what source is that increase coming?

Mr. MCGREGOR: Depreciation and other accruals.

Mr. FULTON: You charge to operating expenses \$5 million for depreciation accruals?

Mr. MCGREGOR: No, depreciation total is shown on the operating sheet. The amount of capital becomes surplus to our requirements during the operating year 1950, was approximately \$5 million.

Mr. FULTON: Might I ask you to explain? That is more than usual is it not? Could I ask you to explain how it came about?

Mr. MCGREGOR: The major influence at work on that is the reduction in the company's capital expenditures, during the period of payment for new equipment such as the North Stars and the purchase of a large amount of additional capital equipment in the way of tools, spare parts and ramp handling expenditure usually is very much higher than at the going rate in 1950 when it was about \$1 million. In other words, depreciation funds rather than being reinvested in additional capital expenditures are now accruing in the form of actual money available for re-equipment purchases.

Mr. FULTON: You do not put into your depreciation fund this year anything more than usual?

Mr. MCGREGOR: Slightly less.

Mr. FULTON: But you feel you had less demands so you used it for investment?

Mr. MCGREGOR: That is correct.

Mr. FULTON: You say that investment amounted to \$4,500,000 in C.N.R. 2½ per cent bonds. I find it a little peculiar that you, a wholly owned subsidiary of the Canadian National Railways, turn around and buy bonds of your parent company? Is that not playing a peculiar relationship there?

Mr. MCGREGOR: The bonds have nothing to do with the C.N.R. as such, except they are the issuers of the bonds. We buy the bonds in the open market as an investment, which is helpful to us. We can only invest Trans-Canada Air Lines funds in government owned or government guaranteed bonds or provincial government bonds.

Mr. FULTON: That is as a result of a restriction in your charter?

Mr. MCGREGOR: That is right.

Mr. FULTON: Otherwise I think you could have got a currently higher rate of interest than 2½ per cent.

Mr. MCGREGOR: That is right, but such securities are not eligible.

Mr. FRASER: What provincial bonds are you holding?

Mr. MCGREGOR: Ontario Hydro and Quebec Hydro bonds.

Mr. GILLIS: On the question of personnel, I notice you have a reduction of over 200 in your personnel. Were there any transfers in service personnel from Trans-Canada Air Lines as such to the Department of Transport?

Mr. MCGREGOR: Just recently. There is one such transfer in being in connection with some operations of radio equipment air-to-ground radio services. That is small, I think it is in the order of thirty or forty, but it is not reflected in this report.

Mr. GILLIS: What is your intention there in connection with personnel? I am much interested in this because I think the Trans-Canada Air Lines should build up the services and then they would have a service that is second to none in the country.

I object in any way to transferring your meteorological services or your radio services or anything of that nature to any other department of government. I do not think you will get the service and the same management as you do if they are kept under the Trans-Canada Air Lines.

Mr. MCGREGOR: It really was a government function that was being performed by Trans-Canada Air Lines, at the request of the department concerned. We were being paid for it and it was rather an untidy arrangement because some of the stations were being operated by the Department of Transport and some by the Trans-Canada Air Lines, and the decision was made that it was a function of government that should be made homogeneous by transferring the four stations we were operating to government operation.

Mr. GILLIS: Would it not have been logical to have those government operated stations transferred to Trans-Canada Air Lines?

Right Hon. Mr. HOWE: We had the argument and we lost the argument.

Mr. GILLIS: Does it mean a reduction in the rates of pay for the personnel being transferred?

Mr. MCGREGOR: I cannot answer that accurately. I think there were changes in the condition of employment such as amount of pension that might not have been as acceptable to the individual as it was before, but as Mr. Howe says, the argument was waged, with Mr. Howe very strongly supporting our side of it and the decision to make the transfer.

Mr. GILLIS: It had only to do with radio operation?

Mr. MCGREGOR: That is right.

Mr. GILLIS: By and by they will come along and take over your meteorological service. In years to come unless a firm stand is taken by the committee and management of the airways all that ultimately will be siphoned off altogether.

Right Hon. Mr. HOWE: There were some international problems involved in the question. ICAO which is supposed to govern all trans-Atlantic flying set up new conditions and rulings involving a new system of paying for services which was open to the government but not to the Trans-Canada Air Lines. We had to take all those things into account. We would have preferred to have it operated by Trans-Canada Air Lines because those who depend on the services should operate the service as we do in Canada, but inasmuch as there were several air lines involved we had to fall in line.

Mr. MCGREGOR: Other air lines were involved. The basic policy is that a country usually provides those facilities where the air lines of several nationalities are involved. Incidentally to clear the point, the government does operate the "met" service.

The CHAIRMAN: Personnel, shall it carry?

Carried.

Mr. GILLIS: Well, I still do not agree with it.

Mr. MACDONNELL: I have a point on page 15 with regard to the new Montreal ticket office. For space in the new building does the Trans-Canada Air Lines pay the same rent as they did before?

Mr. MCGREGOR: The building is owned by the Canadian National Railways. We pay varying rentals per square foot depending on the location. In the case of the ground floor we pay \$7 per foot, and in the case of office space on the upper floors we pay \$3.50 per foot. We only pay that rental for the actually enclosed space; in so far as Trans-Canada Air Lines is concerned, that, of its counters and behind its counters. We do not pay rental on the public waiting rooms.

Mr. MACDONNELL: Could you give us information so that we may know the cost of your space now compared with what it was when you were located on Peel street?

Mr. MCGREGOR: Yes, we could, but the comparison would not be a true comparison because the public area is very much greater where we are now than where we were before.

Mr. MACDONNELL: I realize that. Perhaps you might explain at the same time what your setup now is in terms of area, compared to what it was before. Perhaps, incidentally the Canadian National people would have been the right ones to ask as to how much money they spent on the buildings in order to become the landlord of the various international air transportation groups now located in their building. I have noticed various other companies installed on the ground floor. Is the whole building taken up with various international airways agencies?

Mr. MCGREGOR: Virtually so. The top five floors of the building are housing ICAO, and another fractional floor houses IATA. We have nearly three floors apart from the ground floor area.

Mr. MACDONNELL: I do not know whether it will be right to ask this at this time—I suppose I should have asked it while the C.N.R. officials were here—but I would certainly like to know the cost of the building and what is being paid by the various people, to see what it costs the Canadian taxpayer.

Right Hon. Mr. HOWE: I think it is fully covered. It should be with the rentals they charge.

The CHAIRMAN: It is 1.00 o'clock, gentlemen. Shall we adjourn until 4.00 o'clock?

Carried.

AFTERNOON

The CHAIRMAN: Gentlemen, we have a quorum.

Page 15, property and equipment.

Are there any further questions?

Page 16?

Mr. FRASER: Mr. Chairman, Air Transport Prospect—on extending the service to Paris did you have to make any concessions?

Mr. MCGREGOR: No, the bi-lateral agreement had been negotiated a year ago—you mean reciprocal concessions?

Mr. FRASER: Yes.

Mr. MCGREGOR: The bi-lateral agreement had been negotiated a year ago to permit Air France to operate between Paris and Montreal and they placed that service in being last autumn. The reciprocation was our extension to Paris.

Mr. FRASER: Under Flight Equipment you mention about current development in the field of aircraft propulsion. You are evidently referring to jet propulsion there, are you?

Mr. MCGREGOR: Jet or turbo-prop; that is full jet or turbo-propeller power. We are convinced that both are sources of aircraft power of the future with a great deal of promise in them but development is going slowly, and while both types of power are in being and in use in military aircraft it is only comparatively recently that commercial aircraft types, particularly in England, have been constructed to make use of both those types of power.

We feel there is insufficient operating performance and cost data to make what must be a very well considered decision. We hope that we will be able to take such steps as will leave our present equipment in service until the end of its depreciation life at least, and until the type of detailed experience is available to make decisions as to what the type of power, of the new aircraft shall be.

Mr. FRASER: Do you or do you not think the people of the world are ready for travel by jet? They would be a little leery about it, do you not think?

Mr. MCGREGOR: I do not think so unless jet powered aircraft earned for themselves a bad reputation in their early use. The public generally quickly accepts what is available in the way of increased speed and comfort and I must say that the comfort factor in an aircraft in which I have flown, powered with turbo-prop engines, is really a great deal superior to that in piston engined aircraft.

Mr. FRASER: You do not get the vibration?

Mr. MCGREGOR: No, you do not get the vibration and you do not get the noise in the turbo-prop powered aircraft. People are a little bit awed when they read a large number of miles per hour but that does not affect their comfort to any degree that we have been able to detect in those aircraft.

Mr. FRASER: On account of them being pressurized.

Mr. MCGREGOR: Yes, pressurized and the cabin altitude is the same as it would be—

Mr. FRASER: At all speeds—

Mr. MCGREGOR: Yes. Turbulent air is perhaps a little more noticeable at very high speeds than at present day speeds, but only slightly.

Mr. BENEDICKSON: What is the frequency of the direct flight from Montreal to Paris.

Mr. MCGREGOR: One a week at the moment. We expect to go to two a week in the summer.

Mr. KNIGHT: Do you anticipate much more passenger traffic on account of the British festivals this summer?

Mr. MCGREGOR: It is difficult to say. There is an apparent fear on the part of a lot of people that hotel accommodation will be crowded in England.

Mr. KNIGHT: There won't be such a crowd if they do not go.

The CHAIRMAN: Mr. McCulloch moves that the report of Trans-Canada Air Lines carry?

Carried.

Consolidated balance sheet, at page 18.

Mr. MCCULLOCH: This has all been pretty well explained as we went along.

The CHAIRMAN: It has, but I thought perhaps members might like to have a look at it for a moment before clearing it.

Mr. FRASER: What are "traffic balances receivable from other carriers"? Would you like to explain that?

Mr. MCGREGOR: Yes. That type of balance develops from what we call interline connections. If an air line carries a passenger part of the way and then turns that passenger over at a connecting point to another air line, the originating air line collects the whole of the amount of the ticket from the passenger and then transfers in turn the proportionate amount to the carrier completing the transportation. If BOAC had a passenger from London to Montreal, whose final destination was Vancouver, they would collect the whole fare from London to Vancouver but they would give us the value of the transportation represented by the travel from Montreal to Vancouver. Those balances are always in being and continuing transfers, give the air lines involved the proper amount of money. In some cases there might be three or four air lines involved.

Mr. FRASER: Material and supplies, \$1,706,119.23—you have to pay sales tax on all materials or do you?

Mr. MCGREGOR: Not quite all. We do not pay sales tax on materials that are designated for use on the international operations, otherwise we do.

The CHAIRMAN: Are there any further questions?

Mr. FRASER: What was the last sentence, I did not get that.

Mr. MCGREGOR: I said we pay sales tax on all materials and supplies except those that are designated for use in connection with our international service.

Mr. FRASER: Well what do you contemplate the additional sales tax would be then for 1951, on account of the jump from 8 per cent to 10 per cent.

Mr. MCGREGOR: It will depend on our purchases of that type of material. The way it is calculated is on the basis of the allotment of aircraft to the types of service. We have 20 North Stars, 11 of which are used domestically and 9 of which are used on the international operations. When we buy material or supplies for North Star aircraft we are given a drawback of sales tax of 9/20 of our total purchases. That is because it is impossible to say whether a specific valve is going to be used on an aircraft on the Atlantic or on the domestic operation.

Mr. FULTON: While you are discussing these items would you be lenient for a moment owing to the fact that through my own fault I was not here at four o'clock, and I would like to ask about flight equipment. You made a general comment on page 16, Mr. McGregor, which I am sure that no one will take exception to. On the other hand I imagine you are getting closer to the point where you are going to have to make the decision. As a matter of fact on page 431 of the proceedings last year you told us that you were 12 months closer to the time when you will have to replace the DC-3 aircraft and I see you have retired them fully as far as depreciation is concerned.

Mr. MCGREGOR: Right.

Mr. FULTON: What is the position on replacement?

Mr. MCGREGOR: Just as stated—that at the moment we are in the position of being anxious to choose a replacement aircraft for both types of fleet aircraft we operate, something that is not going to obsolescent in a few years time. We are very hopeful that we will be able to operate the existing fleet, perhaps augmented by small interim purchases, until it is possible for us to make what we consider an intelligent decision on the power. We are inclined to think if we buy heavily of piston engines—which is the only thing possible on the basis of the present information on jet and turbo prop, that it will take two years for delivery. The price will be so great that one could not fully depreciate the aircraft more rapidly than in eight years, which means that ten years hence one would be flying piston engined aircraft. That is what we would like to avoid.

Mr. FULTON: You would like to make the present equipment with minor replacements spin out until you can make the conversion to jet if it is decided on?

Mr. McGREGOR: Yes.

Mr. FULTON: I see. BOAC and C.P. Air Lines have ordered some deHavilland jets for trans-Pacific flights?

Mr. McGREGOR: Yes.

Mr. FULTON: Do you know how long it is before they expect to get delivery and how long it will be before figures are available on jets as a means of transport?

Mr. McGREGOR: They are slowly coming into being. BOAC are considerably ahead of C.P.A. in that respect in that they have now taken delivery of a third deHavilland Comet. They are operating them on an experimental cargo basis over various parts of their route, not on a revenue basis. I think it is probably true to say that British European Air Lines will be operating the turbo prop Viscount within two years' time. I read the other day that Air France had also ordered some of those aircraft. That is the type of shot in the dark that I would hope T.C.A. would be able to avoid—that is ordering an aircraft virtually off the drawing board.

Mr. FULTON: You really then cannot give me any sort of a direct date—it is all sort of completely up in the air?

Mr. McGREGOR: Quite. It depends on how rapidly information comes to light. I would say by the end of this year there will be quite a bit of valuable data available on the operation of the Comet. I would be less sure that would be the case with respect to the Viscount.

Mr. FULTON: Will there be sufficient data available at the end of this year to establish whether or not jets are a success as a commercial aircraft?

Mr. McGREGOR: I think it very likely but I would not be sure.

Mr. FULTON: There is another type you mentioned—the turbo-prop. Is there much development with that going on? Or is that something in between a piston engine and a jet?

Mr. McGREGOR: Well some people think so, although it may not really be between. It is as I think I said last year the equivalent of the turbine driven steamship as compared to the old reciprocating steamship engine. The impeller of the turbine drives a propeller of the conventional type.

Mr. FULTON: I was not asking you to try to educate me on the mechanics of it because it would be hopeless. I was wondering whether you would say the indications are that the turbo-prop or the jet prop are alternates or does one look likely to take the field of the established piston engine altogether—or does it look like a 50-50 proposition?

Mr. McGREGOR: It looks as though the two functions are different—that the jet will have the field in the long range non-stop operation where it goes to extreme altitude and remains there; and it looks as though the turbo-prop aircraft might well be the ultimate answer as far as we can see at the moment for the short range 200 to 400 mile services.

Mr. FULTON: What are the chief types of those being produced at the moment?

Mr. McGREGOR: In engines?

Mr. FULTON: In aircraft using that type of engine.

Mr. McGREGOR: Commercial?

Mr. FULTON: Yes.

Mr. McGREGOR: The only existing commercial type with turbo-prop engines, that is as far as I know of, is the Viscount. There are two or three others under development both in the United States and the United Kingdom. The only two

examples of the jet aircraft in operation are the deHavilland Comet and the A. V. Roe (Canada) Company's jet-liner.

Mr. FULTON: Who produces the Viscount?

Mr. MCGREGOR: Vickers.

Mr. BENIDICKSON: I was just going to ask whether or not defence urgency had, to the knowledge of Mr. McGregor, interfered or caused a cancellation in some of the civilian requirements, or planning, in various ways.

Mr. MCGREGOR: No, I do not think that has been the case but it has slowed up the development work on commercial type engines, I think.

The CHAIRMAN: Moved by Mr. McCulloch that the consolidated balance sheet carry.

Carried.

Mr. FULTON: With one reservation, Mr. Chairman; Mr. Macdonnell was concerned about the Montreal terminal.

The CHAIRMAN: I understand that Mr. McGregor has those answers and I thought it would be making for a better continuity of record if we would conclude, and table the answers at the end of our work.

Mr. FULTON: I was just going to suggest that something be held for Mr. Macdonnell to discuss this item. He is in the House at the present moment; he thinks he should hear Mr. Sinclair's speech on the budget.

The CHAIRMAN: Those questions will be tabled and full allowance given to allow Mr. Macdonnell to discuss any matter.

Mr. Turville, will you read the auditor's report?

Mr. FULTON: Are you not going to cover the income accounts? It has been the practice in the past years to do so.

The CHAIRMAN: If you would like to go into those in detail, all right.

Income accounts, page 20.

Mr. FRASER: Ground maintenance has been cut considerably during the past year?

Mr. MCGREGOR: Yes.

The CHAIRMAN: You come to that on the next page, Mr. Fraser.

Mr. FRASER: That is on page 20, the one you are at now, is it not?

The CHAIRMAN: Ground and indirect maintenance on page 22.

Mr. FRASER: Page 20.

Mr. MCGREGOR: It is one of the items in the second group under "operating expenses", yes, that is so, Mr. Fraser.

Right Hon. Mr. HOWE: The detail of that item is on page 22.

Mr. FRASER: Why has charter and other income on Atlantic services fallen so much as between this year and last year?

Mr. MCGREGOR: That was due to the discontinuance of the immigrant charter service in March of 1950.

Mr. FRASER: Miscellaneous income, what is that for?

Mr. MCGREGOR: Incidental revenue comes from a number of things such as services given to other air lines. An example is Air France's trans-Atlantic operation, the maintenance, cleaning, and so on of their aircraft in Montreal is done by us and there are several examples of that type.

Mr. FRASER: Advertising and publicity is up this year although your passenger receipts are down.

Mr. MCGREGOR: Yes, but only the North Atlantic shows lower passenger receipts.

Mr. FRASER: Is that because of the increased cost of advertising or have you done more?

Mr. MCGREGOR: More advertising and increased costs, both. The establishment of services such as New York always demands a flurry of expensive advertising to make the fact known in a large market like New York that we are in the field, and advertising in New York publications is extremely expensive.

Mr. FRASER: On your southern service you advertise only in English?

Mr. MCGREGOR: To the Caribbean?

Mr. FRASER: Yes.

Mr. MCGREGOR: Yes. They are English speaking colonies.

Mr. FRASER: I know they are but I was just wondering if you advertise in French.

Mr. MCGREGOR: We do in Canada.

Mr. FRASER: I know you do in Canada but in some of the other sections they do speak French, there is quite a French population there.

Mr. MCGREGOR: Yes, but not at the points we touch at.

Mr. FULTON: Could Mr. McGregor give us a word or two on maintenance expense and also on flight operations? I know on your Atlantic services flight operations, equipment maintenance and the ground and indirect maintenance particularly, those three items have all decreased quite substantially. I remember last year I was making certain suggestions about cutting down the services on the Atlantic and particularly the Caribbean. The answer was that you had to have a certain minimum establishment to operate these aircraft anyway and you really could not get by with much less than you have now, and as you explained this morning, it is a question that you have some idle equipment and you put them on the Caribbean to produce some revenue instead of depreciating, and yet you have been able to show these fairly substantial reductions. How do the two statements reconcile?

Mr. MCGREGOR: The two things are not related. When speaking of the fact that operations in the Caribbean are to a degree inefficient I was referring to the low frequency of service that was provided to Barbados, Port of Spain, Trinidad, where we are operating one flight a week. We must maintain a minimum crew there to handle that flight when it does occur but in the meantime that crew has very little to do. The major amount of maintenance money is spent at maintenance bases such as Winnipeg, Montreal, Toronto and Vancouver and the strength of those maintenance establishments is maintained at a constant level which is related to the total operation of the air line. The chief economies that have been realized in maintenance are the very much improved maintenance costs resulting from longer intervals between required overhaul of Merlin engine carcasses and improved methods which are making it possible to do a greater amount of maintenance work with a somewhat reduced staff.

Mr. FULTON: I am just giving you a rough indication of the chief items of the reduced expenses. What did you eliminate this year as compared with last.

Mr. MCGREGOR: The only reduction of services in 1950 over 1949 has been on the frequency on the North Atlantic which during 1949 hit a peak of two a day but seldom exceeded nine or ten a week in 1950.

Mr. MACDONALD: Is Trinidad going to remain the end of the line or are you surveying the possibility of extending into South America, say, to Brazil?

Mr. MCGREGOR: We made a survey of that question two and a half years ago and it came up with a rather unsatisfactory answer, because of the comparatively low volume of traffic and of the very long haul to the next point that was logical for traffic, which was Rio de Janeiro. Conditions have changed

a little bit in that regard, largely due to what we call the fifth freedom privileges at Tampa and for that reason we have just begun a second survey of the traffic potential and the cost of operating.

Mr. FULTON: May I ask whether you consider that you are about at rock bottom on the Atlantic services overall with respect to these controllable costs or whether you could by sort of tapering down slightly more reduce your costs and yet be utilizing the aircraft and avoiding that other situation which you said you wanted to avoid.

Mr. MCGREGOR: I would say we were at pretty close to rock bottom in the matter of expense, but we have not got our heads against the ceiling in the matter of capacity yet.

Mr. FULTON: I am sorry I did not get the implication of that; you have not got your heads against the ceiling.

Mr. MCGREGOR: No, I do not think we can reduce the costs but I think we can earn more revenue.

Mr. FULTON: That will involve again an increase in cost?

Mr. MCGREGOR: No, our aircraft are not operating as fully loaded as we would like to see them at the present frequency.

Mr. FULTON: You think there is a chance of increased passenger traffic?

Mr. MCGREGOR: I do.

Mr. FULTON: I have not got the breakdown yet, but as a general question has there been an increase in passenger traffic in the Caribbean this year?

Mr. MCGREGOR: Yes, some three thousand passengers more.

Mr. FULTON: That would be about ten per cent or more.

Mr. MCGREGOR: About 30 per cent.

Mr. FULTON: And will mail and cargo also increase?

Mr. MCGREGOR: Yes, I believe so.

The CHAIRMAN: Perhaps while we are on this item, Mr. McGregor, you would care to answer the question that was asked? I believe it will save time.

Mr. MCGREGOR: Yes, if I may table the data that were requested; the financial results of the North Atlantic and Bermuda and Caribbean services broken down for the years 1950 and 1949 (see Appendix A), and the passengers carried by months during the year 1950 broken down between the North American service, the North Atlantic services and the Bermuda and Caribbean services. (See Appendix B). That is a picturization of the traffic fluctuation.

The question that was asked regarding the rental in Montreal—

Mr. FULTON: Mr. Macdonnell is interested in that; he is not here.

Mr. MCGREGOR: You would like to have this withheld?

The CHAIRMAN: Would you give Mr. Macdonnell a copy, Mr. Fulton?

Mr. FULTON: Yes.

Mr. MUTCH: Is that going into the record?

The CHAIRMAN: Yes. Mr. McGregor is now putting on the record the material asked for by Mr. Macdonnell regarding the aviation building. Give Mr. Fulton a copy for his own use as well.

(See Appendix C).

Mr. MCGREGOR: The statistical report shows the operations and traffic review, North Atlantic, Bermuda and Caribbean services. And there is a breakdown for the two years which Mr. Fulton asked about.

The CHAIRMAN: Yes. There is also a statement giving information asked for by Mr. Fulton (Appendix D).

Right Hon. Mr. HOWE: Perhaps I could give the information you asked for concerning BOAC. I have their report for 1949-50 here. There was a gross deficit in the year's operations.

Mr. FRASER: The year 1950?

Right Hon. Mr. HOWE: For the year ending the 31st March, 1950. It was 7,791,887 pounds sterling which figures out, at the average value of the pound throughout the year, at \$27,427,442.

Mr. FULTON: That is for the whole system?

Right Hon. Mr. HOWE: Yes, for the whole system.

Mr. MCGREGOR: That is for BOAC only.

Right Hon. Mr. HOWE: Yes, for BOAC only.

I would like to read an interesting comment on the Canadian contribution to the system. It has to do with some North Stars which were delivered there.

The delivery of the remainder of the Argonaut fleet of 22 aircraft some months before the guaranteed dates made possible their introduction into service on the Eastern routes earlier than had been planned; the Plymouth flying-boats were then withdrawn from service and all flying-boat bases east of Cairo were closed. The operation of Argonauts on the Far East routes turned a deficit of £80,000 a quarter in 1948-49 into a contribution to overheads of £140,000 for the last quarter of 1949-50, a striking demonstration of the correctness of the policy of substituting modern pressurized landplanes for the existing types of flying-boats.

The fact that the Argonauts were available so early was a great achievement on the part of the manufacturers of the airframes and engines. . . .

That was a boost for Canadair.

The CHAIRMAN: Are there any further questions arising out of the answers to the questions which have been tabled?

Mr. FULTON: I am trying to find the relevant place, but do not wait for me.

The CHAIRMAN: In order to give Mr. Fulton time, we could call Mr. Turville and clean up the auditor's report.

Mr. FRASER: On page 23, item No. 44, Office rentals. In regard to advertising and publicity, I notice that a year ago it was \$230 and now it is \$1,287. Why the jump? Is that on account of new offices opened, or on account of going into the new building?

Mr. MCGREGOR: No. There might be some effect from going into the new building but I do not think it would be appreciable. Prior to last year, all office rentals were recorded as head office expenditures. But in 1950 they were broken down and charged to the actual department using the space. It was only possible to do that when we went into the International Aviation Building.

Right Hon. Mr. HOWE: Concluding the discussion of the balance sheet, I can guarantee to this committee that the balance sheet for 1951 will be in black ink.

Mr. McCULLOCH: Good!

Mr. FULTON: All services?

Right Hon. Mr. HOWE: Certainly on balance; and we hope to get the Atlantic service into black ink.

Mr. FULTON: Good!

Right Hon. Mr. HOWE: You are welcome. Mind you, we are not guaranteeing that the Atlantic service will be in black, but we are guaranteeing the overall figure.

The CHAIRMAN: Mr. Turville, will you come forward, please? The auditor's report of Trans-Canada Airlines is now before the committee. Shall the report go on the record as read?

Agreed.

1st March, 1951.

TRANS-CANADA AIR LINES

THE RIGHT HONOURABLE THE MINISTER OF TRADE AND COMMERCE,
OTTAWA, CANADA.

Sir:—

We have audited the accounts of the Trans-Canada Air Lines and its Subsidiary Company for the year ended 31st. December, 1950, under authority of the Trans-Canada Air Lines Act, 1937, as amended and we now report, through you, to Parliament.

GENERAL SCOPE OF AUDIT

In brief, our audit of the Air Lines' accounts for 1950 included:

- (a) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn were related to Corporate By-Laws, Orders-in-Council and Acts of Parliament;
- (b) Audit tests in the offices of the Air Lines, limited to a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the Air Lines. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of Cash Receipts and Expenditures, Securities Held, Material Stores and Accounts Receivable of all types. The Air Lines are further protected by Fidelity Bond Insurance with outside Underwriters;
- (d) Audit of the Income Accounts and the Consolidated Balance Sheet and certification thereof.

INCOME ACCOUNTS

DEPRECIATION AND MAINTENANCE

Provision for depreciation on Capital Assets was made during the year on the following bases:

- (a) Flight Equipment in service—
North Star M2—7 year estimated life from date of being put into service.
DC3—4 year estimated life from date of being put into service.
- (b) Ground Facilities—estimated life, the period depending upon the type of asset.

Twenty-two of the twenty-seven DC3 aircraft were fully depreciated during the year with a residual value of \$5,000 each.

We have received certificates from the responsible officer to the effect that all Flight Equipment and Ground Facilities have been maintained in a proper state of repair and in an efficient operating condition during the year, that

such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence have been made, and that notification of all such retirements has been given to the Accounting Department.

INTEREST ON CAPITAL INVESTED

Interest at the rate of 3% was paid to the Canadian National Railway Company on its investment in the Capital Stock of the Company.

MISCELLANEOUS INCOME—NET

The net Miscellaneous Income of the North American Services is composed principally of interest earned on temporary cash investments and cash discounts earned on purchases. In the case of the Atlantic Services, the expense arose mainly from the revaluation of foreign currencies.

CONSOLIDATED BALANCE SHEET

ASSETS

Temporary Cash Investments consisting of Canadian National Railway 2 $\frac{7}{8}$ % Guaranteed Bonds and 3% bonds and debentures guaranteed by the Provinces of Ontario and Quebec, are based on cost. The year-end market value of these investments was 2.36% less than cost.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

A physical inventory of Material and Supplies was taken late in 1950. We have received a certificate from the responsible officers to the effect:

- (a) That the quantities were determined by actual count, weight or measurement or by a conservative estimate where such actual basis was impracticable, and
- (b) That the inventory pricing was based on latest invoice prices for new materials, and that proper allowance for condition has been made in pricing usable second-hand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory through a credit to Operating Expenses of \$14,000.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railway System (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry current assets. The year-end market value of the securities was 2.69% less than cost.

Capital Assets are carried on the basis of cost, less accrued depreciation.

RESERVES

The Insurance Reserve amounts to \$4,079,000, of which \$3,030,000 is applicable to the North American Services and \$1,049,000 to the Atlantic Services. The Reserve in respect of the North American Services has not been materially increased during the year, as it reached the maximum considered necessary in 1949. The Reserve applicable to the Atlantic Services increased by \$407,000.

The Reserve for Overhaul has been increased to \$861,000 to provide for the cost of major overhauls of North Star M2 and DC3 aircraft which are necessarily undertaken periodically. The unexpended balance of the Research and Development Reserve has been transferred to this account.

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are converted generally as follows:

(a) United States Currency—at the dollar par of exchange.

(b) Sterling Currency—at the rate of \$2.95 to the pound.

Dollar amounts stated in this Report are to the nearest thousand.

Yours faithfully,
George A. Touche & Co.

The CHAIRMAN: Mr. Turville, has there been any change in this report, or in your audit or accounting practice?

Mr. TURVILLE (George A. Touche & Co.): No, there has been no change in the method of conducting the audit or in the manner in which the report has been prepared.

The CHAIRMAN: And the report contains no new recommendations?

Mr. TURVILLE: No.

Mr. McCULLOCH: I move the adoption of the auditor's report.

Mr. FULTON: There was one comment which I think should be made. It is an objection rising out of a comment made this morning about the investments of the depreciation reserve and the insurance fund in various government bonds. I see on page 2 that the auditors point out as follows:

ASSETS

Temporary cash investments consisting of Canadian National Railway 2 $\frac{7}{8}$ per cent Guaranteed Bonds and 3 per cent bonds and debentures guaranteed by the Provinces of Ontario and Quebec, are based on cost.

The year-end market value of these investments was 2.36 per cent less than cost.

And down in the last paragraph under "Assets", you say:

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railway System (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry assets. The year-end market value of the securities was 2.69 per cent less than cost. When did that depreciation occur?

Mr. TURVILLE: That depreciation occurred during the year 1950 through a change in market conditions in connection with the bond issues. It is not an actual loss.

Mr. FULTON: At the present value?

Mr. TURVILLE: At the present value. That statement is made for the benefit of the committee and it points out that, at the date of the balance sheet, and at the date of the value, the percentage is less than cost.

The CHAIRMAN: Mr. McCulloch moves that the auditors' report to parliament of TCA be carried?

Carried.

Now, Mr. Fulton, if you have that other question ready we shall be through with our work.

Mr. FULTON: I do not know that there is really any question arising out of it. I want to have an opportunity to look at it to see whether there is. Mr. McGregor, perhaps I might ask you this, safely. In looking at your passengers carried by months, I see that you reached your peak in the year 1950 in August.

Mr. MCGREGOR: Yes.

Mr. FULTON: It is about that time each year when you reach your peak?

Mr. MCGREGOR: The peak of service in the system falls in August. But if you will look at the North American services in this case, it did the same thing for the number of passengers, but the revenue peaks fall in June and September.

Mr. FULTON: Why is that?

Mr. MCGREGOR: There is a greater increase in the number of the shorter haul passengers, in August.

Mr. FULTON: You think it is not so profitable?

Mr. MCGREGOR: We are talking now about gross revenue. It produces less gross revenue when we fly a man three hundred miles than when we fly him eighteen hundred miles.

Mr. FULTON: You show the revenue peak as twice as high in June and September, whereas these peaks are in June and August. I was comparing them with the revenue table, and that is what you were pointing out.

Mr. MCGREGOR: Yes.

Mr. FULTON: In discussing this matter in the committee in previous years, and in looking at the figures, the peak for passengers on the domestic service has usually been reached just after the half-way point throughout the year.

Mr. MCGREGOR: That is correct.

Mr. FULTON: There is no variation in that this year as compared with previous years?

Mr. MCGREGOR: No. But if you notice the fall-off during the autumn months in 1950, it has been much less marked than in previous years.

Mr. FULTON: That certainly seems to be true. At least it has not gone down as far and so suddenly.

Mr. MCGREGOR: No.

Mr. FULTON: Would you attribute that particular feature of it at all to the rail strike?

Mr. MCGREGOR: It unquestionably played a part and we say so in the report. We made a lot of new friends through carrying first fighters during the rail strike. But that same trend has been apparent in the United States to an almost equal degree, so I do not think there is a very marked over-all affect due to the railway strike.

Mr. FULTON: But your peak would be considerable, would it not? If you recorded it in a graph, the same general trend would be evident, only both peaks and valleys would be higher?

Mr. MCGREGOR: Yes. The valley is not as deep a valley in relation to the peak in the autumn of 1950 as it has been in previous years.

Mr. FULTON: One other thing. I see that you went from 40,000 on domestic, from a low of 40,000 at the beginning of the year to a peak of 89,000 or practically 90,000. The difference is very close to 50,000. Now you have gone back to 60,000 in the winter months. Are you going to be able to continue indefinitely the Atlantic and the Caribbean services?

Mr. MCGREGOR: Not indefinitely without some supplementary addition to the fleet. But we are certainly going to be able to cope with the situation in 1951 by increasing the frequency, and by working the fleet at a higher utilization.

Mr. FULTON: Are you reaching the question point where you may have to pull one or two aircraft from your Atlantic service to the domestic?

Mr. MCGREGOR: No. In fact the pattern in 1951 is clearly established. There can be no doubt that we shall meet the demands this summer with the exception of the occasional specific flight. It is questionable but if the present

traffic pattern continues at the present rate of growth, we can not contemplate going through the summer of 1952 without supplementary help in the matter of aircraft.

The CHAIRMAN: Are there any further questions? If not, then on behalf of the committee I would like to thank Mr. McGregor.

Mr. FULTON: Mr. Macdonnell is now here with respect to this Montreal matter.

Mr. MUTCH: Mr. Macdonnell was here but he just went out. He was in here this afternoon.

Mr. BENIDICKSON: Here he is now.

The CHAIRMAN: We are through with our other work.

Mr. MACDONNELL: I am sorry. The liberal speakers are so good that you cannot tear yourself away from them.

The CHAIRMAN: You have in your hands the answer to your question. (Appendix "C"). And if there are any further supplementary questions arising out of it, you might care to ask them now.

Mr. BENIDICKSON: I believe I have one with respect to the rental of the building as a whole. It came up when the Canadian National Railway officials were here, and you yourself, Mr. Macdonnell, were making a contribution to the budget debate at that time. There was some discussion and, as I understood it, there were some vacant spots yet to be rented in that building. But when that was done it would provide a respectable return for the investment in the building.

Mr. FULTON: Mr. Chairman, may I raise a point. Last year we had some discussion on the budget, and following the discussion we had a motion that the budget of the T.C.A. be referred to this committee. Is it not going to be referred to us this year?

The CHAIRMAN: Mr. Drew had special reasons last year for wanting it referred to the committee, and the committee after hearing his reasons asked parliament that the budget be referred to the committee. You will recall that we tabled a special report asking parliament to refer the T.C.A. budget to this committee.

Mr. FULTON: Oh yes, I recall now; we made a special request for it.

The CHAIRMAN: No such a request has been made in the committee so far this year, but we have dealt with all the work that parliament referred to us by order of reference of April 10 and April 11.

Mr. FULTON: I raise that point as a matter for the committee to take into consideration. We don't want to keep the officials here while we are discussing the subject.

The CHAIRMAN: No. But should the committee decide that the budget items are to be referred to it we could have the committee request parliament to refer the budget items to us. It is unfortunate that such a request was not made sooner. Because it does take time to put it through.

Mr. FULTON: Mr. Chairman, I have no special thing about which I wanted to ask questions with respect to the budget this year. The point I had in mind was that the committee might consider that it should report to parliament that the T.C.A. budget should be referred to this committee.

The CHAIRMAN: You mean, in future years?

Mr. FULTON: Yes, Mr. Chairman.

The CHAIRMAN: That is quite in order. I see Mr. Macdonnell is here now.

Mr. MACDONNELL: I just wanted to make one general comment if I may. It is with regard to the board of directors, and may I assure you at once that it is

in no sense criticising any member of the board at all. I just wanted to raise this question, however, that the board of directors comes entirely if I understand it correctly, either from the board of directors of the Canadian National Railway or from the officials of the Canadian National Railway, or from the civil service. Would that be correct?

Mr. MCGREGOR: No.

Right Hon. Mr. HOWE: By statute four directors, a majority of the board, are appointed by the Canadian National Railways. As a matter of fact, the regulations appointing the board of directors come under the provision of the Canadian National-Canadian Pacific Act, which provides that all directors of subsidiary companies must be chosen from the directors of the railways.

Mr. MACDONNELL: That is by law?

Right Hon. Mr. HOWE: Yes.

Mr. MACDONNELL: Am I correct in my understanding that Mr. Henry and Mr. Edwards are appointed by the government?

Right Hon. Mr. HOWE: They are appointed by the government. We are not confined to government officers; we can appoint anyone we like.

Mr. MACDONNELL: It seems to me that you have it all inside the family, and while I have great respect for these men you do not get what I might call the outside point of view. They are all from the central province. I just thought I should comment on this.

Right Hon. Mr. HOWE: I think there is something in it. The reason we have appointed them from the central provinces is that there is no salary attached, and there is the problem of getting men who can attend meetings; a man will not travel all the way from Vancouver and lose a week's time for no compensation.

Mr. BENEDICKSON: I do not think Mr. Macdonnell's comment was on that point. I think he had in mind the principle that you have only government men on a government owned operation. It is not a question of distance from their place of residence, or anything of that kind.

Right Hon. Mr. HOWE: Well, as a matter of fact, I have had it in mind to increase the representation on the board of directors of Trans-Canada Air Lines. I have asked Mr. McGregor to include in the next amendment to the Trans-Canada Air Line Act, which may or may not be considered this session—we are not just sure yet—provision for two additional directors of the Air Lines, with the thought of getting representation from other districts.

Mr. MUTCH: Perhaps that remark of yours may make it unnecessary for me to say some of the things I was going to say. As you know there is rather a strong feeling which does not date from the second last session of this committee that T.C.A. would perhaps serve more understandably western Canada if some of the directors came from farther away, and our people would make that request to you, and would not be particularly deterred by the argument that there is no pay in connection with it. I do not think they would suggest—I might in a less responsible moment—that when you do not pay anything for service you usually get what you pay for. But there are people in western Canada who feel that they have suffered because of this arrangement, but if you are proceeding with the appointment of additional directors to the T.C.A., I shall say no more than to say that I feel very strongly on the matter, and I know others in the west feel the same way, namely, that special consideration should be given, by whatever means necessary, to provide them representation on that board.

RIGHT HON. Mr. HOWE: We have that in mind. As I say, we do not like to open the Act, which as you know might lead to a somewhat extended debate, just to provide for the appointment of the two new directors. But there are

some changes required in the Act and when the changes are made we intend to include provision for the appointment of two additional directors.

Mr. GILLIS: I did not understand Mr. Macdonnell to say that he wanted additional directors appointed from the east or west. My conception of what he asked for was that because the directors are all now from the government service that you should take in someone who is not in the government service and appoint him a T.C.A. director.

RIGHT HON. MR. HOWE: That is what we have in mind.

Mr. GILLIS: I would object to that for this reason, that if it is a government service then the proper place to get your directors from is from those who are within the government service and believe in that type of organization as a government managed industry. I do not want to see any weasels in the hen coop. They might not get along with the chickens. There is such a thing as infiltration.

Mr. FRASER: We do not want all yes men.

Mr. GILLIS: I think the T.C.A. have indicated by their report that they have done an excellent job despite the fact that their directors are centralized. We see progress in every report and the minister has assured us that they will be in the black next year. Why change it?

RIGHT HON. MR. HOWE: We are going to change it. There is demand for representation particularly from the city of Winnipeg. I do not know why Winnipeg.

Mr. MUTCH: I can tell you why.

RIGHT HON. MR. HOWE: I know what you are going to say, you are going to refer to the situation which arose a couple of years ago.

Mr. MUTCH: One of the reasons was that a lot of people are not yet convinced that the argument which I and others had with you and the directors a couple of years ago—there is no question who won the argument, but there is still some doubt regarding the justification of the victory—was answered. We believe nevertheless that we would like to have someone closer to the scene of these decisions who could, or who could be presumed to have a completely sympathetic approach toward the province. I do not want to raise that point again; I have taken a lot of lickings, and I shall probably have to take more; but it stems from that, and it is not getting any less.

RIGHT HON. MR. HOWE: We are not unsympathetic to that viewpoint at all, and it can be corrected.

Mr. MOTT: I hope you will consider someone beyond Winnipeg. Since the C.N.R. had one director from Winnipeg, Mr. Mutch thought that was fine; he was not worrying about anybody farther. I hope you take it to the coast.

Right Hon. Mr. Howe: I understand that New Westminster is quite happy about the situation now.

The CHAIRMAN: Gentlemen, may I now release Mr. McGregor and his staff? And, would the committee agree that we should have a general discussion as to any items you might like to have included in the report. I shall draft the report and have it ready to submit to you at 11 o'clock tomorrow morning. We will meet then and wind up our work.

Mr. McGregor, on behalf of the committee, I do want to thank both you and your staff for your attendance here today, and also to congratulate you upon the wonderful showing you have made in 1950. I would also like to thank Mr. Turville and his assistants for attending.

SESSION 1951

MAY 3 1951

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

CHAIRMAN—MR. HUGHES CLEAVER

MINUTES OF PROCEEDINGS

No. 4

TUESDAY, APRIL 24, 1951

THIRD AND FOURTH REPORTS TO HOUSE

SESSIONAL COMMITTEE
ON
RAILWAYS AND SHIPPING
OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: Hughes Cleaver, Esq.,

Vice-Chairman: H. B. McCulloch, Esq.,

Messrs.

Benidickson	Gillis	Macdonnell
Bourget	Gosselin	McCulloch
Carter	Hatfield	McLure
Cavers	Healy	Mott
Cleaver	Helme	Mutch
Follwell	James	Picard
Fraser	Knight	Pouliot
Fulton	Macdonald (<i>Edmonton-</i>	Thomas
George	<i>East</i>)	

Clerk: Antonio Plouffe

MINUTES OF PROCEEDINGS

TUESDAY, April 24, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government held an executive meeting at 10 o'clock. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Carter, Cleaver, Fraser, Fulton, George, Gillis, Gosselin, Healy, Helme, Macdonald (*Edmonton East*), Macdonnell, McCulloch, Mott, Pouliot and Thomas.

Consideration of a draft report to the House was begun.

The Committee discussed the elimination of exhaust noise on North Stars.

At 10.50 o'clock, the Committee adjourned until 4.30 o'clock this day.

AFTERNOON MEETING

The Committee resumed at 4.30 o'clock. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Bourget, Carter, Cleaver, Fraser, Fulton, George, Gillis, Healy, Macdonnell, McCulloch and Mutch.

The Committee continued and considered its consideration of the draft report.

On motion of Mr. Fulton,

Resolved,—That the following words be added after the words "Air Lines" in the 13th paragraph of the draft report.

"Your Committee noted that progress has been made in research to reduce exhaust noise in North Stars, and hopes that responsibilities of Canadair in connection with the installation of any successful device will be further investigated."

Ordered,—That the Chairman present the report to the House, as amended.

At 4.45 o'clock, the Committee adjourned to the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

REPORTS TO HOUSE

WEDNESDAY, April 25, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present its

THIRD REPORT

Pursuant to the Orders of Reference of the House of April 10, 1951 and April 11, 1951, this Committee had before it for consideration the following:—

1. The Annual Reports for 1950 of the Canadian National Railways System, the Canadian National (West Indies) Steamships Limited, and the Auditors' Report to Parliament in respect of the Canadian National Railways System and the Canadian National (West Indies) Steamships Limited.

2. The Annual Report of the Trans-Canada Air Lines for the year ended December 31, 1950, and the Auditors' Report to Parliament for the year ended December 31, 1950 in respect to Trans-Canada Air Lines.

3. The Annual Report of the Canadian National Railways Securities Trust for 1950.

4. The Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, for the calendar year 1951.

5. Vote 493—Prince Edward Island car ferry and terminals—deficit.

6. Vote 495—Canadian National (West Indies) Steamships Limited—deficit.

7. Vote 501—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railways and other railways operating in territory fixed by the Act.

Your Committee held nine meetings, during which the above-named matters were considered and evidence adduced thereon.

The Annual Report of the Canadian National Railways for 1950 discloses a net income of \$42,416,772.00, however, interest on the Funded Debt due to the public amounted to \$24,019,158.00, and interest on Government loans amounted to \$21,658,849.00 bringing about a deficit of \$3,261,235.00. The Annual Report was adopted, but your Committee recommends that the earliest possible action be taken on the reorganization of the capital structure of that system.

The Annual Report of the Canadian National (West Indies) Steamships Limited for 1950 discloses a net operating deficit of \$601,432.00, and after payment of interest on bonds and Government advances, there was a total deficit of \$1,028,767.00. The balance in the Vessel Replacement Fund at the end of the year was \$4,313,638.00, and in the Self Insurance Fund, \$1,772,458.00. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1950 shows a surplus of \$201,206.00 for the North American Services, and a deficit of \$1,526,412.00 for Trans-Canada Air Lines (Atlantic) Limited. The Annual Report was adopted, but your Committee recommends that in future the financial Budget of Trans-Canada Air Lines, North American Services, and Trans-Canada Air Lines (Atlantic) Limited, for the ensuing year be referred to the Committee to be dealt with along with the Annual Report of Trans-Canada Air Lines. Your Committee noted that progress has been made in research to reduce exhaust noise in North Stars, and hopes that responsibilities of Canadair in connection with the installation of any successful device will be further investigated.

The Auditors' Report to Parliament with respect to the Canadian National Railways System, the Canadian National (West Indies) Steamships Limited, and the Trans-Canada Air Lines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1950, were severally examined and adopted.

The Financial Budgets of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited for the calendar year 1951, were examined and adopted.

The above referred to Votes 493, 495 and 501 were considered and approved, and have already been reported to the House by second report of this Committee, which was presented to the House on April 18, 1951.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways, and Comptroller, Trans-Canada Air Lines; and Mr. G. R. McGregor, President of Trans-Canada Air Lines.

A printed copy of the minutes of proceedings and evidence taken will be tabled at a later date.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

TUESDAY, May 1, 1951.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present its

FOURTH REPORT

Your Committee now tables a printed copy of its minutes of proceedings and evidence.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

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MAY

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, APRIL 28, 1952

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1952)

WITNESSES:

Donald Gordon, C.M.G., LL.D., Chairman and President;
T. J. Gracey, Comptroller;
S. F. Dingle, Vice-President;
T. H. Cooper, Vice-President.

SPECIAL COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, operated and controlled by the Government

Chairman: Hughes Cleaver, Esq.,
Vice-Chairman: H. B. McCulloch, Esq.

and

Messrs.

Benidickson,
Bourget,
Carter,
Cavers,
Churchill,
Dumas,
Follwell,
Fraser,
Fulton,

George,
Gillis,
Healy,
Helme,
James,
Knight,
Macdonald
(Edmonton East),

Macdonnell
(Greenwood),
McLure,
Mott,
Mutch,
Picard,
Pouliot,
Thomas—25.

R. J. GRATRIX,
Clerk.

ORDERS OF REFERENCE

THURSDAY, April 24, 1952.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers, and records and to report from time to time and that notwithstanding Standing Order 65, in relation to the limitation of the number of Members, the said Committee consist of Messrs: Benidickson, Bourget, Carter, Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1951, tabled on March 24, 1952, the Auditor's Report to Parliament for the year ended December 31, 1951, in respect of Trans-Canada Air Lines, tabled on April 2, 1952, and also the Operating Budget and Capital Budget for the calendar year 1952 in respect of Trans-Canada Air Lines, tabled earlier this day, be referred to the said Committee.

Ordered,—That the Annual Reports for 1951 of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, the Canadian National Railways Securities Trust, and Auditor's Report to Parliament in respect to the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, tabled on April 3, 1952, and the budget of the Canadian National Railways and Canadian National (West Indies) Steamships, Limited, for 1952, tabled on April 21, 1952, be referred to the said Committee, together with the following items of estimates for 1952-53: Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit

Vote 486—Canadian National (West Indies) Steamships, Limited—Deficit

Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

And that the Resolution passed by the House on March 19, 1952, referring certain estimates to the Committee of Supply, be rescinded insofar as the said Resolution relates to Votes Nos. 485, 486 and 493.

MONDAY, April 28, 1952.

Ordered,—That the quorum of the said Committee be reduced from thirteen to eight Members.

Ordered,—That the said Committee be granted permission to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, from day to day, 1000 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, April 28, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

FIRST REPORT

Your Committee redommends:

1. That its quorum be reduced from thirteen to eight members.
2. That it be granted permission to sit while the House is sitting.
3. That it be empowered to print, from day to day, 1000 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman

MINUTES OF PROCEEDINGS

MONDAY, April 28, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock a.m., this day.

Members present: Messrs. Benidickson, Carter, Cleaver, Fulton, George, Gillis, Helme, James, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot.

In attendance: The Hon. L. Chevrier, Minister of Transport; and Mr. Donald Gordon, Chairman and President; Mr. S. F. Dingle, Vice-president (Operations); Mr. T. V. Gracey, Comptroller; Mr. T. H. Cooper, Vice-president (Accounting); all of the Canadian National Railways.

The Clerk of the Committee invited nominations for the election of a chairman.

Mr. Macdonald (*Edmonton East*) moved, seconded by Mr. Mott, that Mr. Cleaver be elected chairman.

The question being put, Mr. Cleaver was unanimously elected and took the chair.

On motion of Mr. Macdonnell (*Greenwood*),

Resolved,—That the Committee recommend to the House that its quorum be reduced from thirteen to eight Members.

On motion of Mr. Macdonald (*Edmonton East*),

Resolved,—That the Committee recommend to the House that it be granted permission to sit while the House is sitting.

On motion of Mr. McLure,

Resolved,—That the Committee recommend to the House that it be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Fulton,

Resolved,—That Mr. McCulloch be appointed Vice-Chairman of the Committee.

The Committee then commenced a study of the annual report of the Canadian National Railways (1951).

Mr. Donald Gordon was called and read an introductory statement to the annual report of the Canadian National Railways (1951).

On motion of Mr. Fulton,

Resolved,—That the reading of the annual report by Mr. Gordon be dispensed with and that the said annual report be printed as part of today's evidence.

The Committee then commenced a detailed study of the annual report.

After some discussion and several questions being directed to Mr. Gordon, the Committee agreed to rescind its previous decision and have Mr. Gordon read the annual report.

Mr. Gordon proceeded with the reading of the annual report.

The Committee then commenced a detailed study of the annual report, during which questions were directed to the Hon. Mr. Chevrier and Mr. Gordon. Mr. Gordon was assisted by Mr. Cooper, Mr. Gracey and Mr. Dingle.

At 1.00 o'clock p.m. the examination of Mr. Gordon still continuing the Committee adjourned to meet again at the call of the Chair.

SESSIONAL COMMITTEE

AFTERNOON SITTING

The Committee resumed at 4.20 o'clock p.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Carter, Fulton, George, Gillis, Helme, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Pouliot.

In attendance: Same as indicated for the morning sitting.

The examination of Mr. Gordon was continued.

At 4.55 o'clock p.m. the Division bells having rung, the Committee adjourned to attend the Division.

The Committee resumed at 5.20 o'clock p.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Carter, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot.

The examination of Mr. Gordon was continued.

At 6.40 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m. Tuesday, April 29, 1952.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

April 28, 1952.

11:00 a.m.

The CHAIRMAN: Thank you, gentlemen.

May I have a motion for the reduction of a quorum? I think that is in order; a reduction from 13 to 8.

Moved by Mr. Macdonnell that the committee recommend to the House that its quorum be reduced from 13 to 8 members.

Agreed.

Mr. MACDONALD (Edmonton East) moves that the committee recommend to the House that it be granted permission to sit while the House is sitting.

Carried.

Mr. McLure moves that the committee recommend to the House that it be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its *Minutes of Proceedings and Evidence*, and that standing order of 64 be suspended in relation thereto. I might say, gentlemen, that this is a slight increase over our usual amount of printing, but the committee last year ran short of printed copies of evidence.

Carried.

Moved by Mr. Fulton that Mr. McCulloch be appointed vice chairman of the committee.

Carried.

Gentlemen, shall we now pass on to the annual report of the Canadian National Railways?

Agreed.

Mr. Gordon, we are pleased to have you back with us again.

Mr. DONALD GORDON, C.M.G., (President, Canadian National Railways): Mr. Chairman and gentlemen, I think you will find the annual report for the year 1951 is more comprehensive than anything that has appeared in the past. In an endeavour to give an informative account of our stewardship, we have tried to present the year's activities as part of a continuing process against the background of an economic environment in which the Canadian National as Canada's largest public utility is an indispensable servant of industry and a partner in pioneering.

This year we have made use of a fold-over cover in order to give room for a detailed map of the Canadian National system lines, and within the covers you will find a number of photographic plates which also serve to illustrate the range and scope of our system activities. Starting on page 2 there is a picture gallery of the senior officers at railway headquarters, whose handsome features are perhaps not as well known to the public as they should be. The opposite page gives the customary listing of the board of directors and departmental officers. The next two pages set forth the table of contents and the formal letter of transmittal. The various headings in the text of the report have been set down for your convenience and you will find that the narrative of the report is divided into three major sections.—the review of financial results beginning on

page 6; the review of operations beginning on page 12, dealing for the most part with physical facts; and, finally, a section of general interest which begins on page 17. You will see that the paragraphs within each of these sections have been numbered so as to facilitate reference in the course of your examination of this report. The balance sheet is conveniently located in the centre of the report (pages 24 and 25) and is followed by the consolidated income account and detailed statistics relating to our finances and operations generally.

With that, Mr. Chairman, I will begin by reading the letter of transmittal.

The CHAIRMAN: If I might interrupt for a moment, for the record, in addition to Mr. Gordon we have here this morning Mr. S. F. Dingle, vice president in charge of operations; and Mr. T. H. Cooper, vice president in charge of the accounting department; and Mr. T. J. Gracey, comptroller.

Mr. FULTON: Mr. Chairman, I am not sure that I speak for all members of the committee and I do not want to arrogate to myself any right to. We are impressed by the report. Although some of us may have reservations as to some parts of it, or receive it with a varying degree of enthusiasm, I think that we are all agreed that the company is to be congratulated on the success shown for this year; and, in order to save Mr. Gordon's voice, to save the time of the officers of the company who are here and also to save the time of members of the committee, may I move that the report itself be printed as it appears here without Mr. Gordon being put to the trouble of actually reading it.

Mr. MUTCH: I would like to second that motion.

Mr. FULTON: However, if Mr. Gordon wants to read it—

Mr. GORDON: I am entirely in your hands. I thought the reading of the report would settle a number of questions which might be asked.

Mr. MUTCH: That has been the usual procedure, as I recall it.

Mr. FULTON: Then, I withdraw my motion.

The CHAIRMAN: Mr. Fulton moves, seconded by Mr. McLure, that the report be taken as read and printed in our proceedings.

Agreed.

Our practice is to take up the letter first. Are there any questions on the letter to the minister?

Carried.

Now, turning to the report.

1. Review of financial results. Are there any questions on that paragraph? Then we turn to operating revenues (paragraph 2) on page 6.

Mr. MOTT: How would it be, Mr. Chairman, if we go through this—are you going to go through it page by page? If so, Mr. Gordon might give us any highlights he has in mind and in that way explain them to us.

The CHAIRMAN: Are there any questions with regard to operating revenues?

Mr. MACDONNELL: There is one question which occurs to me there—it may be fully covered here—but I wonder if Mr. Gordon could explain the increase in freight resulting operating picture. It appears to me desirable to know the facts in this report.

The CHAIRMAN: Would it be satisfactory to the committee if we take operating revenues and operating expenses together and bring them in full discussion, Mr. Macdonnell, on the point which you have raised?

Mr. GORDON: Perhaps I could summarize that point. Increased revenues during the year were \$27,050,000, arising from increased freight rates, as such. That is for freight only. Then, passenger and other services, \$2,681,000; a total of \$180,000 arising out of the communications department generally—\$29,881,000 all told for increased rates of various kinds.

The CHAIRMAN: And is the balance of \$71 million odd increase in total made up of increased traffic?

Mr. GORDON: It would be increased volume of traffic as distinct from rates, yes.

Mr. POULIOT: Before we go further, Mr. Gordon, I notice that the record of operating revenues for 1951 over 1950 was only 13 per cent, and that the increase of operating expenses was 17·4 per cent.

Mr. GORDON: That is correct.

Mr. POULIOT: Which means that the increase of expenses there was 4·4 per cent more than the year before?

Mr. GORDON: Yes.

Mr. POULIOT: Is that due to increases in salary?

Mr. GORDON: You will find that for the most part in our breakdown of expenses—that total increase, as you pointed out—actual operating expenses rose by 17·4 per cent while our revenue rose roughly 13 per cent.

Mr. POULIOT: Yes.

Mr. GORDON: For the most part that increase is due to higher wages.

Mr. POULIOT: Yes, and therefore the increase in revenue did not cover the increase in expenses.

Mr. GORDON: That is correct.

Mr. POULIOT: On account of that.

Mr. GORDON: That is correct. We have stated specifically in the report—we have pointed out, on page 9—that the increased revenues described there were more than offset by the higher operating expenses of 17·4 per cent; but the major part of that, as I said, is due to wage increases; and, also, there were, of course, general increases in the prices of building materials, supplies and so on; but the major part is represented by wages.

Mr. POULIOT: Therefore, it was in part due to higher salaries and they would have to increase revenues by increasing freight operations.

Mr. GORDON: Yes, generally speaking our expenses were \$15 million higher than the amount of revenue that we took in.

The CHAIRMAN: Have you a breakdown, Mr. Gordon, of the amount by which the operating expenses were increased resulting from the \$41 million increase in volume of traffic?

Mr. GORDON: Perhaps, Mr. Chairman, if you will permit me, I will give you a breakdown—an explanation of the principal increases in expenses.

Mr. MACDONNELL: Before you do that, Mr. Gordon, I would like to ask you this: I would like to get the net final operating results for 1950 and 1951.

Mr. GORDON: That is on page 6, I think you will find it there.

Mr. MACDONNELL: All right, thank you.

Mr. GORDON: You will note it in the detail there right at the beginning. That is our net operating report; and it shows, for 1950, \$59,834,502, as against \$44,683,899 in 1951; and our expenses in 1951—to answer the previous question—our expenses in 1951 were \$86,152,000 higher than in 1950—and I will just summarize the reason for that increase; there were \$23,534,000 which we call a pure wage increase representing money paid out in pay rolls. There is \$10,332,000, represented by the additional cost of the forty hour week which was in effect only part of the year; there is \$21,181,000 represented by additional labour; and there is \$12,325,000 represented by this increased price of materials.

Mr. MACDONNELL: Have you those figures in the report, the ones you are reading from?

Mr. GORDON: They would not be in the report; no, this is a breakdown of those figures.

Mr. POULIOT: One of the figures was in the report.

Mr. GORDON: Yes, the main figures are in the report, this shows it in more detail.

Mr. POULIOT: Yes.

Mr. GORDON: The statistical detail you will find at the end of the report on the pages starting from page 42. You will find also starting at page 26 the details of the consolidated income account, operating revenue and operating expenses—most of these headings you will find under the particular items which you might be interested in.

Mr. POULIOT: And supplementing that you are reading more detailed figures.

Mr. GORDON: Yes. And that is the amount of work we had to do, yes; not so much the amount of work we had to do but more in terms of net result.

Mr. POULIOT: Yes, and in terms of encouragement.

Mr. GORDON: Yes, the customary accounts for the services we run.

The CHAIRMAN: Mr. Gordon, would you complete the breakdown that you started to give us; you had given us the increased cost of materials—

Mr. GORDON: There was \$9 million credit for deferred maintenance of 1950 and which did not appear in 1951; and then there are a number of sundry items here which could be summarized more or less as building materials, miscellaneous, totalling up to about \$8 million in the form of snow removal, maintenance of way, maintenance of equipment, transportation, and so forth. It could be pretty well summarized at about \$9 million

The CHAIRMAN: Mr. Gordon, could you give us a further breakdown of the \$21 million for additional labour, as to how much of that additional labour was caused through the forty hour week, and how much was caused through additional volume of business?

Mr. GORDON: We tried to separate the forty hour week and in this particular table showing \$10,332,000; we tried to take that out so that the amount chargeable to the forty hour week could be distinguished from the additional labour which was necessary to take care of the additional volume, Mr. Chairman.

The CHAIRMAN: All I wanted was to make sure of that.

Mr. MACDONNELL: There was \$21 million for additional labour.

The CHAIRMAN: Yes, but it was related to increased volume.

Mr. MACDONNELL: As against a total labour bill of how much?

Mr. GORDON: You will find on page 29 a statement showing the "operating expenses and total payroll"; and under the heading of 1951 the total payroll was \$381,654,000. That is the second figure below there. It might be interesting to point out in regard to the payroll, that of our operating dollar—if you will turn to page 11—it is not numbered—you will find there a breakdown of our various items of expenses, and you will find that, of the revenue dollar, 56 cents went to payrolls.

Mr. GILLIS: Mr. Gordon, does that item of \$381,654,000 represent administrative staffs also?

Mr. GORDON: It includes everything: it is the total payroll of the railway.

Mr. FULTON: Mr. Chairman, might I make a suggestion? This paragraph (1) "review of financial results" is in very general form. I think it covers about everything; whereas the various items are covered more specifically either in separate paragraphs of the report or in the detailed tables at pages 26 and 27.

The CHAIRMAN: Yes.

Mr. FULTON: So I wonder if it would save us from chopping through the report if we went on with paragraph (2)? I think the questions being asked would actually all be directed to specific paragraphs, and would perhaps more properly come under the specific paragraphs later on in the report, so that we would be having some duplication if we asked everything at this point.

The CHAIRMAN: I think you are quite right, Mr. Fulton, but I also think it is helpful to the understanding in a general way of the report for Mr. Macdonnell to pursue his general questioning for a few minutes longer, to give us the broad picture.

Mr. POULIOT: Both go together, as you have said so wisely, Mr. Chairman.

The CHAIRMAN: Mr. Gordon, am I correct? Mr. Gordon has suggested that the committee would be better off if he should read his report.

Mr. GILLIS: I think he should, too.

The CHAIRMAN: We all have had the reports on our desks.

Mr. GILLIS: Yes, but most of us do not read them.

Mr. MACDONNELL: We have other things on our desks too.

Mr. GORDON: I undertake to go through it as quickly as possible; and I think there are quite a number of questions which you will pick out which would be answered automatically as we go through it.

Hon. Mr. CHEVRIER: Could we not ask Mr. Gordon to read paragraph 2, 3, and 4, and then, if there are any questions, we could ask them at that time so that we would not have to go through the whole report and then go over it again?

The CHAIRMAN: That might be very good. Shall we try it?

Mr. GILLIS: I think you had better let Mr. Gordon read his report and if there are any questions, we can make notes of them and ask them later on. I think that would be the better way.

The CHAIRMAN: We shall take your advice on it, Mr. Gordon.

Mr. GORDON: Thank you, Mr. Chairman. I shall start then with the letter of transmittal on page 5, which reads as follows:

CANADIAN NATIONAL RAILWAYS

MONTREAL March 10, 1952

The Honourable Lionel Chevrier, Q.C., M.P.,

Minister of Transport,

Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1951.

In an endeavour to give a clear insight into the activities of the System, the narrative of the Report has been broadened in scope and organized into three main sections, dealing in turn with the financial results, the physical performance and state of the property, and items of interest affecting transportation generally and the Canadian National in particular.

It is a pleasure to record the appreciation of the Management for the loyal and effective service rendered by officers and employees throughout the Organization.

Yours truly,
D. GORDON.

Now I turn to the "Review of Financial Results" and I call attention to the table starting with paragraph 1; and then I begin to read again at paragraph 2, "Operating Revenues".

REVIEW OF FINANCIAL RESULTS

1. The results of the System's operations for 1951 compared to 1950 are given in the following summary table:

	1951	1950
Operating revenues	\$624,834,120	\$553,831,581
Operating expenses	580,150,221	493,997,079
Net operating revenue	\$ 44,683,899	\$ 59,834,502
Taxes, equipment rents and other income accounts	12,900,780	17,417,730
Available for payment of interest.....	\$ 31,783,119	\$ 42,416,772
Interest on bonds held by the public.....	23,467,703	24,019,158
Available for payment of Government interest	\$ 8,315,416	\$ 18,397,614
Government interest.....	23,347,412	21,658,849
<i>Income deficit</i>	<i>\$ 15,031,996</i>	<i>\$ 3,261,235</i>

The Consolidated Income Account appears on page 26.

OPERATING REVENUES

2. An all time peak in operating revenues was reached during 1951, exceeding the record of the previous year by nearly 13%. The highest volume of freight traffic in the history of the System was the most important factor responsible for this outcome. Freight revenues rose by 11.9% to \$498,800,344.

Volume of freight traffic

3.*The total tonnage of freight handled on the System amounted to 89.6 million tons, or 10.1% more than in 1950. A better description of the physical volume of work performed by the Railway is to be found in the record total of 36.4 billion revenue net ton-miles carried on System lines. This was 13.9% more than the 1950 quantity, partly because the tonnage was handled, on the average, over longer distances. The average haul was 407 miles in 1951 compared to 393 miles in the preceding year.

4. The greatest tonnage increases were recorded in the relatively low-rated traffic, notably grain and pulpwood. An exceptionally large increase in grain tonnage resulted from a bountiful harvest coupled with the heavy carry-over from the 1950-51 crop year. Pulpwood traffic increased by approximately 3 million tons or 73%, as paper mills engaged in large scale replenishment of stocks which had been drawn down for requirements in 1950. Substantial increases were also registered in ores and concentrates, other mine products, woodpulp, gravel, sand and stone, iron and steel, and miscellaneous manufactures.

5. A significant decline in bituminous coal tonnage from the abnormal levels of 1950 was in part attributable to a continued trend towards the substitution of fuel oil for industrial purposes. The only other major tonnage decreases occurred in the case of crude oil and auto parts, the former reflecting the diversion of traffic to pipelines, and the latter being attributable to reduced production in auto plants served by Grand Trunk Western lines.

Freight rates

6. Reference was made in the Annual Report for 1950 to the application filed with the Board of Transport Commissioners on December 21, 1950, by the Railway Association of Canada, seeking authority for an immediate general increase of 5% in freight rates, with provision for specific increases of 10c. per ton on coal and coke. Hearings began on January 19, and on January 25 the Board reserved judgment.

7. Subsequently, on April 23rd, the Railway Association filed a supplementary application based on the increased operating expenses anticipated from inauguration of the 5-day 40-hour week for non-operating employees on June 1st. This application sought authority for an additional general increase of 14% and amended the previous application in respect of coal and coke rates to 10¢, 15¢, and 20¢ per ton for rates up to \$1.00, up to \$2.00, and over \$2.00 per ton respectively. As an alternative and having regard to the conclusions of the Royal Commission on Transportation (1951) in the matter of horizontal increases, the Railway Association proposed an increase of 15% with a list of exceptions on certain basic commodities such as lumber, pulpwood, stone, gravel, etc., for which maximum increases would be provided in some cases and flat increases in others.

8. Taken together with the 5% application mentioned above, the total increase applied for under the first alternative was 19.7% without exceptions, other than coal and coke, and under the second alternative, 20.75% with exceptions on a number of basic commodities.

9. Pursuant to these applications the Board, on July 4th, issued an Order authorizing an interim increase of 12% with specific advances in the rates on coal and coke of 10¢, 15¢, and 20¢ for rates up to \$1.00, up to \$2.00, and over \$2.00 respectively. These rate increases became effective on July 26th.

10. On October 29th a further application was made to the Board seeking a 17% increase in substitution of the 14% previously applied for, or 18% in place of the alternative 15% application. Under this amended application the total increase sought was 22.85% without exceptions, other than coal and coke, or alternatively 23.9% with exceptions on certain commodities.

11. The Board's decision in this latter case, issued on January 25th and amended on February 4th, 1952, authorized (in lieu of the 12% interim increase awarded on July 4th) an increase of 17% in class and commodity rates and charges for ancillary services. In addition, confirmation was given to the above mentioned graduated scale of increases on coal and coke; cordwood and other wood for fuel purposes only was made subject to a maximum increase, and rates on potatoes were restricted to an increase of 12%. The authority granted under this Order was restricted to a period of time ending on August 31st, 1953, this limitation being subject to such further direction as may be found necessary by the Board. The increases granted by this decision were made effective on February 11th, 1952.

12. In all of the foregoing awards no change was made in the statutory Crowsnest Pass rates on grain or grain products originating in Western Canada.

13. In two successive Orders of the Board an interim increase ranging from 2% to 4% on international and related traffic, effective April 4th, was raised to an increase ranging from 6% to 9% effective August 28th. These Orders paralleled two decisions by the Interstate Commerce Commission on an application by American railroads for a 6% increase, which application was later amended to 15%. In all of the foregoing cases there were certain exceptions to the general rate increases. Both in Canada and the United States the latest increases are subject to expiry on February 28th, 1953. Meanwhile, upon petition from American railroads, further hearings by the Interstate Commerce Commission have been held and a decision is now pending.

14. Despite the freight rate increases described in this section, unit revenues for 1951 were 1.8% lower, on the average, than in 1950, the revenue per net ton-mile having fallen to 1.369 cents. The explanation is to be found in the changed composition of the traffic, the effect of rate increases having been swamped by relatively large increases in the volume of low-rated traffic.

15. The General Freight Rates Investigation, ordered under Order-in-Council P.C. 1487 of April 7, 1948, was continued during the year. This Investigation is in part concerned with the equalization of freight rates, a subject which has been reported upon by the Royal Commission on Transportation. A number of informal discussions were held throughout the year between the Board of Transport Commissioners, Railway representatives, and other interested parties, in addition to formal hearings in Ottawa on May 15th, September 10th, and January 10th, 1952. Further hearings have been scheduled by the Board for March 17th, 1952.

Passenger Traffic

16. Passenger revenues showed a 19% improvement over the previous year as a consequence of increased patronage, chiefly attributable to the large movement of immigrants and displaced persons into Canada. Increased tourist and party travel, together with military movements, also contributed to the total of 17.3 million passengers carried during the year. Total passenger miles rose by 14.5% partly because of an increase in the average passenger journey from 84 to 93 miles.

17. A modest amount of additional revenues resulted from various small increases in passenger fares. Certain increases in the minimum charges for sleeping and parlour car accommodations were also brought into effect during the year.

Express Traffic

18. Increased charges and a record number of express shipments contributed in roughly the same proportions to an increase in express revenues of almost 19%.

19. Increases were applied to special long distance and package rates on April 2, co-incident with a rise in parcel post rates, and on June 4 commodity rates on fish were increased upon authorization by the Board of Transport Commissioners.

20. The number of express shipments amounted to 23,154,755, representing an increase of more than 5% over the previous year.

Communications Traffic

21. Substantially increased patronage in both commercial message and private wire business was the principal cause of a 14% increase in gross revenues of the Communications Department. A contributing factor was the higher average revenue per message, in part reflecting an increase of approximately 18% on Canadian traffic authorized by the Board of Transport Commissioners and made effective on November 1.

OPERATING EXPENSES

22. The increased revenues described above were more than offset by higher operating expenses, which rose by 17.4% to a new peak. Higher wage rates were the most significant element in increased costs. Greater expenditures for maintenance and transportation incidental to the higher volume of business, together with increased prices of materials were important contributing factors.

Employee Compensation

23. Increased compensation on both Canadian and American lines of the System resulted in an increase of \$33.9 million in operating expenses during 1951. The major change was an increase of 20% in the *hourly* wage rates of non-operating employees, consequent upon the introduction, on June 1, of a 5-day 40-hour week with maintenance of take-home pay. This was part of the final settlement determined by the award of Mr. Justice R. L. Kellock in the dispute with non-operating employees, as described in the annual report for 1950.

24. Increased compensation was also provided for in wage settlements reached during March with operating employees on steam lines in Canada, and with non-operating employees on System lines in the United States. Other agreements were negotiated during the year with various smaller groups of employees.

Prices

25. The prices of all railway materials, as measured by a composite index based on 1936-38=100, rose by 9.7% during 1951, bringing the index to 220.5.

26. It is estimated that price increases added \$12.3 million to operating expenses during the year. Had year-end prices been in effect throughout 1951 this sum would have been increased by approximately \$5,000,000.

OTHER INCOME ACCOUNTS

27. The net debit arising from this group of accounts was reduced by \$4.5 million. Part of the reduction was accounted for by the payment in 1950 of a premium amounting to \$958,000 on bonds called for redemption, for which there was no corresponding expense in 1951.

28. Amounts totalling \$2,483,000, credited to income account, were derived from the sale of land to Abitibi Power and Paper Company, and the sale of the Rail and River Coal Company property, as described under "Property Investment Account".

29. As a result of the appreciation of the Canadian dollar during the year the cost of exchange on the purchase of United States funds was \$612,000 lower than in 1950.

Hotel Operations

30. New peaks in both the gross revenues and operating expenses of nine Canadian National hotels and three summer resorts were recorded during the year. Net operating income was \$588,485 compared to \$565,853 in 1950.

31. Gross revenues, amounting to \$9,249,902, showed an increase of 5 per cent attributable to increases in room rates and meal prices at the nine year-round hotels, and to a modest increase in patronage of summer resorts. The number of guests accommodated at year-round hotels declined slightly to 667,943.

32. Operating expenses increased by 5 per cent to \$8,661,417 due to charges for further replacements and retirements of facilities, higher prices for materials and supplies, and the cost over a full year of the 4c wage award to hotel employees on August 31st, 1950.

Property Investment Account

33. As shown on page 32, expenditures on additions and betterments, less the book value of property retired, amounted to \$85,778,826, of which \$57,183,076 represented net expenditures on equipment.

34. A description of the equipment acquired during 1951 will be found on the top of page 42, which also shows an inventory of equipment at the year-end.

35. Major improvements to road property are dealt with under appropriate heading later in this Report.

36. New construction and improvements in System Hotels were advanced during 1951. The floors of the new fifteen-storey wing of the Macdonald Hotel in Edmonton were completed and the building closed in up to the fourteenth storey by the end of the year. At St. John's, the rehabilitation and modernization of the Newfoundland Hotel made considerable progress and is expected to be completed in 1952.

37. Important property acquisitions during the year included the purchase of two small railway lines. The properties of the Quebec Railway, Light and Power Company were acquired in order to integrate rail operations between Quebec City and Nairn's Falls on the north shore of the St. Lawrence River. The electric lines of this Company extended for a distance of 25 miles from Quebec City to St. Joachim, making connections at the latter point with Canadian National lines terminating at Nairn's Falls. The New London Northern Railroad Company was acquired in order to effect a saving in rentals and taxes to which the Central Vermont Railway, a subsidiary of the Canadian National, was obligated by virtue of a 99-year lease. This line comprises 121 miles of main line between Brattleboro, Vermont, and New London, Connecticut.

38. A general office building was purchased in Detroit for the accommodation of Grand Trunk Western Railroad staffs hitherto occupying rented premises.

39. Major property retirements involved the sale of land and coal properties. The assets of the Rail and River Coal Company, located at Bellaire, Ohio, were sold following a careful study which established that ownership no longer afforded any special advantage to the Railway. Some 633,000 acres of land grant lands adjacent to the railway line between Fort William and Sioux Lookout, Ontario, were sold during the year to the Abitibi Power and Paper Company Limited. These lands were previously under a long term lease which conveyed timber cutting rights to the Paper Company. The sale price was \$1,600,000 with a reservation of such of the lands as may be required for further use by the Railway.

40. The following rail lines were abandoned under authority of the Board of Transport Commissioners and the Interstate Commerce Commission:

	Distance
Port Hope to Millbrook, Ontario	16.6 Miles
Cass City to Bad Axe, Michigan	18.3 Miles

Financing

41. On January 15th, 1951, a \$13,500,000 issue of 2½ per cent Ten Year Serial Equipment Trust Certificates, maturing in twenty semi-annual instalments, was sold at a cost of 2.95 per cent. The issue provides approximately 75 per cent of the cost of the new equipment covered by this Trust agreement.

42. \$48,022,000 of 4½ per cent Bonds payable at the holder's option in Sterling, Canadian or United States funds, outstanding in the hands of the public, matured on September 1st, 1951, and funds for this redemption were borrowed from the Government of Canada.

43. The net increase in borrowed capital, as shown on Page 36, amounted to \$73,893,054. The balance of financial requirements were obtained from depreciation reserves.

OPERATING PERFORMANCE

1. Improvements in efficiency due to technological advances, though gradual and often masked by random factors, can be traced in the record of operating performance over a reasonably long period of time.

2. The year 1951 was a record year of industrial activity and rail traffic, and it is appropriate to compare it, in respect of the units in operating performance, with the year 1928, since this was the peak traffic year of the inter-war period.

3. During this interval of time striking improvements have been recorded in the utilization, capacity, and unit output of the Railway's equipment. The mileage obtained per serviceable freight car day increased from 32·6 to 45, and the daily mileage of serviceable freight locomotives rose from 107 to 152. The average carload increased from 25·2 to 29·9 tons, while the average freight train increased from 1409 to 1749 tons. Average freight train speed rose from 13·1 to 16·1 miles per hour, and gross-ton miles per train hour—a highly significant composite measure of performance—increased from 18,500 to 28,100. For comparative purposes these figures exclude the Newfoundland District.

4. The overall comparison shows that in quantity the Canadian National has furnished 58% more freight transportation with 12% fewer locomotives and 12·4% fewer freight cars, and in terms of quality the average speed has been raised by 23%. This improvement was accompanied by a significant decline in fuel consumption, and the use of relatively less manpower.

TECHNOLOGICAL IMPROVEMENTS

Motive Power

5. In terms of equipment the diesel locomotive continues to offer the most promising field for improved efficiency. Following the completion of a comprehensive study, approval in principle has been given to a five-year programme of partial dieselization directed towards those freight, passenger, and yard services where relatively intensive utilization of locomotives can be obtained, and advantage taken of the greater availability and lower operating costs of this type of power. This programme will involve large capital expenditures, and can only be justified by the substantial economies made possible not only in train operations but also through the rearrangement of servicing and repair facilities.

6. The Canadian National was the first railway in North America to experiment with diesel-electric locomotives. During 1951 the addition of 103 diesel units, including 39 switchers and 10 road switchers, brought to 280 the total units in service at the year-end, at which time approximately 17% of all through freight traffic on the System was being hauled by diesels. A modest increase in this type of power will be made in 1952 but more servicing facilities must be provided before additions can be substantial. Meanwhile a training programme for personnel who will be engaged in operating and maintaining diesel locomotives has been organized and is in active operation.

7. Developments in the field of the gas turbine locomotive continue to be watched with interest. Some progress has been made with the oil-fired gas turbine in the United States and Europe, where a few units are being tested in service. Coal-fired gas turbines are still the subject of considerable experimentation in the United States and Canada, though no locomotive is yet in operation. Tests are being conducted at McGill University in this field, and have been followed with particular interest by the Company's technical officers, who have lent assistance wherever possible.

8. Developments in other types of motive power, such as the diesel mechanical-drive locomotive, are also being carefully observed.

9. The programme of converting steam locomotives on the Western Region from coal to oil-burning was deferred during the year because of some uncertainty respecting future supplies of bunker "C" oil. The supply position having been made secure, it is expected that 42 locomotives will be converted to oil-burning in 1952.

Freight Equipment

10. Consideration is being given to the use of light-weight metals in the construction of freight cars. An aluminum-sheeted box car and an aluminum hopper car were obtained on loan for test purposes, and experience with the the latter unit has led to the purchase of 5 aluminum hopper cars to permit of more extensive tests in actual service.

11. Continued study is being made of the various components and materials used in freight equipment with a view to achieving economies through greater durability, lighter weight and reduced maintenance expense consistent with safety in operation.

Passenger Equipment.

12. Substantial progress was made during the year in a continuing programme of reconditioning passenger equipment. The major part of the work consisted of air-conditioning 22 coaches, converting 14 units to combination passenger-baggage cars, and the modernization of 12 sleepers, 5 parlour cars and 3 other units of passenger equipment.

13. Further study was made of the possibilities of diesel railcars for use in short passenger runs where traffic is relatively light. Tests were conducted with a new streamlined stainless steel unit of American design, and useful data on performance was obtained under varying conditions of operation. These units though capable of combination into short trains, are not designed to haul trailer coaches. Diesel railcars with matching trailers have been in use on the System for over 25 years; during 1951 one set of this equipment was completely modernized and its performance in actual service will determine policy with respect to future conversions. Delivery of 6 new light-weight electric cars and 12 matching trailers for suburban services through the Mount Royal Tunnel was originally scheduled for the summer of 1951 but is not now expected until mid-summer of 1952.

Signalling and Track Equipment.

14. Installations of Centralized Traffic Control signals on two strategic sections of main line were proceeded with during the year. On the 148 miles of line between Foleyet and Hornepayne, Ontario, where 4 transcontinental passenger trains and as many as 21 other passenger and freight trains meet

and pass daily, installation was completed and the equipment placed in service late in the year. On the Holly Subdivision, an important 35-mile link between double track lines at Pontiac and Durand, Michigan, installation of this modern signalling equipment was advanced to approximately 70% of completion.

15. Work was continued during the year on a long term programme which will eventually provide automatic block signals on the 512 miles of main line from Jasper, Alberta, to Port Mann, B.C., the operating terminal serving Vancouver. Installation was completed on the 43 miles of line between Jasper and Red Pass Jct., B.C., bringing the total to 159 miles of automatic signals in service in this area at the end of the year.

16. The mechanization of track maintenance was advanced by the purchase of 5 mobile, multiple-unit power tie tampers and a considerable number of smaller power tools for use by section forces. A saving of both time and expense was achieved by the rental of 2 mobile ballast cleaners, which were employed in cleaning 310 miles of high speed rock ballasted track between Montreal and Chicago.

Communications.

17. During the year a programme aimed at achieving a 60% increase in carrier channel mileage was launched in order to adjust capacity to the steadily rising trend of demand. Because of serious delays in equipment deliveries, only about 15% of the programme was completed by the year-end.

18. A three-year programme of modernizing equipment assigned to the Canadian Broadcasting Corporation programme network service was completed to the extent of 65%. Plans were also developed during the year to modernize the internal telegraph and telephone system of the Canadian National Railways.

19. New operating methods and techniques were examined with a view to achieving greater efficiency, and plans were studied for the more extensive use of mechanized equipment.

Other Research.

20. The improvement of specifications, the testing of material supplied to the Company, and the development of improved control techniques in the use of fuel and other materials continued to receive the attention of the Railway's technical officers. Among the projects undertaken by the Research and Development Department during the year were experiments aimed at effecting a better utilization of coal in steam locomotives, the development of a rust inhibitor to control brine corrosion, and improvement of journal lubrication.

21. Further investigation has been conducted into the problems associated with mechanical refrigeration, and an experimental installation in a freight refrigerator car will be made in the near future. The development of a new type of air-conditioning, lighting and heating equipment for passenger cars is proceeding in conjunction with an English engineering firm.

22. In co-operation with the Canadian Pacific Railway standard specifications were drawn up for automobile, flat, gondola, and hopper cars, and in addition agreement was reached on various structural details of passenger cars. This measure of standardization will prove beneficial both to the manufacturers and the Railways.

CONDITION OF THE PROPERTY

23. An intensive shopping and repair program was concentrated on locomotives and freight cars during the year and resulted in substantial improvements in the percentage of serviceability of this equipment. A slight increase was registered in the serviceability of passenger car equipment.

24. The acquisition of 5,000 box cars during 1951, partly offset by the retirement of 1,274 old cars, was of considerable assistance in meeting an unprecedented volume of traffic particularly during and after the harvesting of the western grain crop. Generally speaking, in respect of other freight car equipment the underlying condition of shortage remains. The situation should, however, improve progressively as deliveries are made during 1952 and 1953 of the equipment for which orders are outstanding or anticipated.

25. No new passenger-carrying cars were added to the inventory of equipment during 1951. The continuing steel shortage and congestion of production schedules, arising out of industrial requirements essential to defence preparedness, are likely to defer until at least 1953 the delivery of new equipment, and in consequence heavy pressure on the available supply of the newer types of cars can be expected during seasonal travel peaks.

26. The state of maintenance of the road bed, track and structures can be described as generally satisfactory, but in some instances does not measure up to the standards planned at the start of the year. This situation can be attributed to shortages and slow deliveries of materials, notably steel products, and to the strain imposed, during a period when labour was relatively scarce, by the necessity for recruiting and training the additional workers required by the introduction of a 5-day 40-hour week on June 1. Considering the arrears of maintenance and the backlog of necessary improvements which still persist from the war period, the effect on the property is significant. An intensive survey, reaching down to divisional level, is currently under way with a view to assessing as accurately as possible the extent and degree of deferred maintenance.

Terminal facilities

27. The high volume of traffic and intensive industrial development, which have characterized the expansion of the Canadian economy, have resulted in serious congestion in many of the Company's terminal and yard facilities at major centres. This problem, which is compounded of obsolete layout and inadequate capacity, has been receiving systematic and comprehensive study with a view to making such improvements, both in facilities and operating methods, as will provide a measure of immediate relief during the period which must intervene before long term remedies can begin to take effect. Encouraging progress was made in this direction during 1951.

28. A number of terminal projects in hand at the beginning of the year were progressed as rapidly as supply conditions permitted. In the Bonaventure freight terminals a four-storey office building, a short extension to the inbound shed, and the shed office building were approximately three-quarters completed at the year-end. Continued progress was made on the rearranging of the track structure in the Central Station area, a phase of the Montreal Terminal Development Plan, and work is expected to be finished by the end of 1952. At Point St. Charles shops in Montreal, the new paint shop was approximately 70% finished and track alterations were completed in preparation for the construction of a new diesel shop extension. The rearrangement of tracks and enlargement of Mimico yards in Toronto Terminals was brought close to completion during the year.

29. A special problem is presented by congestion in the Montreal terminal area, which not only serves a heavy concentration of industry but is also a focal point for through freight traffic to and from the Maritime Provinces and the United States. Turcot yards, the main facility, are hemmed in near the centre of the city, and as a practical matter it is not possible to expand capacity sufficiently to accommodate the steadily growing volume of traffic. Long range plans have, therefore, been formulated for the construction of a modern hump yard in the Cote de Liesse area to be used for the marshalling of trains. Meanwhile, as a necessary interim measure, work has been proceeding on a program of track extensions in Turcot yards, which facility will eventually be required as a storage and supporting yard.

GENERAL

THE ECONOMIC ENVIRONMENT

1. The year 1951 carried forward in record breaking measure the process of growth and development by which Canada has begun to evolve into a more diversified and better balanced economy with a broad industrial structure giving promise of support to a larger internal market. While the rapid development of mineral and forestry resources has been most noticeable, there has also been substantial expansion of secondary and manufacturing industries. Meanwhile the steady growth of the world's population has underscored the importance of Canada's farm and fishery resources.

2. Typical of development in the mining industry have been the extensive and continuing discoveries of iron ore in Ontario, Quebec, and Labrador, and of petroleum and natural gas in the Prairie Provinces and British Columbia. Far from being a deficiency country in these basic materials, Canada bids fair shortly to become one of the world's major sources of supply. The development of new processing industries is illustrated by the actual or planned construction of plants for the treatment of titanium, nickel, zinc and sulphur. Further evidence of the trend toward industrial maturity is seen in the manufacture of textile synthetics, industrial chemicals including petro-chemical products, and a range of steel products some of which have never before been produced in Canada.

3. The quickening pace of resource development, accompanied by a growing population, has led to the achievement of a new record in national output. The Gross National Product in 1951, adjusted for price changes, appears to have been no less than 90% higher than in 1939.

4. As the largest public utility serving the nation, the Canadian National is continuing to play a vital role in this process of expansion.

5. During 1951 more than 194,000 immigrants entered the country, the largest inflow since 1913, and 294 special trains were operated by the Canadian National from ports of arrival to accommodate immigrants from overseas. Trained staffs of interpreters and other experienced personnel were used extensively in carrying out the reception and transportation arrangements.

6. Throughout the year a considerable number of firms planning new plant locations availed themselves of the technical and consulting services provided by the Company's industrial development officers.

7. Consideration has been given to the acquisition of the National Harbours Board trackage on both sides of Burrard Inlet, with a view to encouraging development of a new and large industrial area on the North Shore of Vancouver Harbour. However, no agreement has yet been reached with various municipal authorities in respect of operation over the Second Narrows Bridge.

8. In order to provide direct access to factories, warehouses, and other industrial establishments in various parts of Canada, 223 industrial spur tracks totalling 43.7 miles in length were constructed during the year. The longest of these spur lines, 5.8 miles in length, was constructed from Forestburg, Alberta, to the Forestburg Collieries, where strip mining operations have begun. Another spur line of 4.8 miles was completed from the former National Transcontinental line near Barraute, Quebec, to the properties of the Barvue Mines Limited, where major deposits of zinc ore have been located.

New Branch Lines

9. The strategic position of Canadian National lines in relation to the economic frontier has been demonstrated by significant developments in northern Manitoba and northwestern British Columbia.

10. During the year a request was made for the extension of the Canadian National branch line terminating at Sherridon, Manitoba, to the site of extensive nickel, copper and cobalt deposits at Lynn Lake, approximately 150 miles north of Sherridon. After a study of the economic factors involved, recommendations were made and the necessary authorization obtained in the late summer to proceed with construction. By the end of the year the line had been surveyed for a distance of 54 miles as far as the crossing of the Churchill River, approximately 21% of the surveyed right-of-way was cleared, and 7 miles of roadbed were graded. Under an agreement with the Sherritt-Gordon Mines Limited, the objective is to have the line ready for service by October, 1953.

11. Large scale developments centering around the construction of an aluminum reduction plant in the vicinity of Kitimat, British Columbia, approximately 70 miles southeast of Prince Rupert, have given rise to a proposal for construction of a branch line approximately 46 miles in length to connect with the Prince Rupert line of the Canadian National. After careful investigation of the financial considerations involved, this project has been recommended by the Management and is now awaiting final authorization.

Other transportation developments

12. The construction by the Federal Government and the Government of Nova Scotia of a causeway across the Strait of Canso is scheduled to begin in 1952. This will provide a continuous rail link in place of the train ferries now in operation.

13. A further significant improvement in facilities for handling traffic to and from Newfoundland is anticipated from the construction, to be undertaken by the Federal Government, of a modern icebreaking ferry for service between North Sydney, Nova Scotia, and Port aux Basques, Newfoundland. The new ferry will be of special design, and will employ a type of portable freight container, adaptable for use on Newfoundland railway equipment, which will not only speed up freight handling but reduce loss and damage resulting from transshipment between boat and rail.

14. Another notable development in the field of transportation is the northward extension of the Pacific Great Eastern from Quesnel to Prince George, British Columbia, where it will link with the Canadian National line to Prince Rupert.

The St. Lawrence Seaway Project

15. The prospect that Canada will, if necessary, proceed without participation of the United States in the St. Lawrence Seaway Project is of immense significance to the Canadian economy.

16. The deepening of the canalized St. Lawrence Waterway to provide for a minimum draft of 27 feet, taken together with the very substantial development of hydro-electric power, will undoubtedly have an effect upon the railways in general and the Canadian National particularly. Bulk commodities previously moving by rail because of the limited capacity of the existing canal system may move by water, and the availability of ports on the Great Lakes to ocean shipping may result in some diversion of traffic. Offsetting these adverse factors, however, will be the industrial development which may be expected from the availability of cheap power, water and rail transport in a concentrated area. The general conclusion must be that while there will be a period of readjustment following the construction of the St. Lawrence Deep Waterways, it is unlikely that there will be permanent adverse effects upon the Canadian National. There is, however, a problem of major importance in ensuring that Canadian National facilities will be given their proper place in the industrial pattern which will emerge from the completion of this project.

The competitive framework

17. The range of requirements for transportation services is so wide that no single medium of transportation can meet the demands of industry and the travelling public. The railways in Canada are faced with selective competition from air, water, and land transport enterprises, each of which is specialized by reason of advantages derived from their particular techniques of operation.

18. The airlines, for example, are specialized in speed of movement and are patronized by those who are willing to pay a premium for the fastest possible service. The quickening pace of Canadian economic life has brought the airlines into strong competition for passenger and mail traffic, and to a lesser degree for the movement of goods.

19. Water carriers are specialized in low cost bulk movements of goods in which the speed of service is not a critical factor. This is illustrated by the fact that the great bulk of the western grain crop normally moves, during the navigation season, via Fort William and Port Arthur through the Great Lakes.

20. Pipelines can show decisive cost advantages over rail tank cars in the movement of petroleum and petroleum products under conditions where a steady and very large traffic volume can be assured over a sufficient number of years to amortize the initial costs of the construction. Oil pipelines are still a relatively new development in Canada and further construction can be expected.

21. Commercial road vehicles have certain characteristics which make them particularly suitable for short haul traffic moving in relatively small volume. Truck competition bears on the most valuable classes of freight traffic and in recent years has expanded rapidly in the long haul field.

22. Despite the growing pressure of these competitive factors the railways must continue to serve as the principal facility of land transportation, because only the railways have the capacity to supply cheap all-weather transportation in large volume over continental distances.

Highway Competition

23. The present limits to the profitable operation of trucks in competition with the railways are governed primarily, not by the relative technical or cost advantages of road and rail transport, but by the margin between trucking costs and railway rates. The railway rates are not uniformly related to operating costs; generally rail charges are relatively low on basic commodities and relatively high on processed goods of greater market value. The success of trucking firms in diverting valuable traffic from the railways in the long

haul field can largely be attributed to the artificial advantage of operating against a railway rate structure of this kind, rather than to inherent technical superiority.

24. The problems which emerge from this set of circumstances are complex and will not yield to any single or simple solution. In the sphere of action open to Management, attention has been concentrated on improving service to the public and increasing the efficiency of operations. This objective has been assisted and can be further advanced, by the co-ordination of rail and highway services. In this connection the most promising field is to be found in providing supplementary or substitute services on the highway co-incident with the curtailment of rail operations on branch lines where, as a permanent condition, traffic revenues fall short of meeting direct costs. In general the policy of the Management is to employ road transport as an adjunct to basic rail services. Wholesale and indiscriminate entry into bus and truck operations is not contemplated.

25. Pursuant to this policy, 8 small scale trucking services and 2 bus services were inaugurated during the year. By virtue of a license secured from the British Columbia Public Utility Commission, an autobus service was begun between Prince Rupert and Smithers, B.C. The Mackenzie Coach Lines, providing a bus service in New Brunswick and Nova Scotia, were operated jointly with the Main Central Railroad, thus affording a bus route from United States points to Sydney and Halifax. Other such services have been planned and are awaiting action; for example the Canadian National proposed to the Province of Prince Edward Island a plan for bus and truck service co-ordinated with railway operations, which would greatly improve the quality of transportation in that Province. This proposal is now under active consideration.

ROYAL COMMISSION ON TRANSPORTATION

26. The Report of the Royal Commission appointed on December 29, 1948 to inquire into transportation problems in Canada was made public on March 15th, 1951.

27. Based on the recommendations in this Report, a number of important amendments have been made to the Railway Act giving certain responsibilities and directions to the Board of Transport Commissioners, affecting particularly the regulation of railway rates.

28. The amendment to the Railway Act under Section 332A defined the national policy in respect of equalizing freight rates. In this and in other amendments certain stipulations have been made in permissive terms leaving to the Board the exercise of their judgment in the final disposition of each case. Representations by the Canadian National in respect of such matters as the method of equalizing freight rates, and the determination of a uniform system of accounts, will be made at the appropriate time to the regulatory authority.

29. Pursuant to a recommendation by the Royal Commission, legislative provision has been made for the payment of a subsidy to the Canadian National and the Canadian Pacific towards the cost of maintaining trackage in a defined area north of Lake Superior. The amount of the subsidy, not to exceed \$7 million annually, is to be determined by the Board of Transport Commissioners.

30. The Report of the Royal Commission also called attention to the need for a more positive attitude toward railway line and service abandonments.

In addition the Commissioners' views on railway ownership of truck lines were set forth in these terms:

It would seem that operation of trucks may be an essential and complementary part of railway operation, more especially in view of changing conditions. Under these circumstances it does not appear reasonable that railways should be prohibited from operating trucks or truck lines. There is no evidence to show that there is danger at present of the railways stifling competition by ownership of trucks. This would be a matter to be dealt with if and when the occasion arises.

These observations lend objective support to the policy of the Canadian National as enunciated in the preceding section.

Recapitalization

31. The Canadian National has never failed to meet operating expenses, but except for the years 1926, 1928, and 1941-45 has been unable to meet the heavy fixed interest charges with which the System has been faced since its inception in 1923. The Royal Commission, having studied the evidence presented in public hearings, reported:

"The Canadian National Railways has established a case for reduction of its fixed charges and for the desirability of the Company being able to accumulate out of earnings a reserve or 'something to come and go on'."

32. It is expected that the measure of relief recommended by the Commission will be made available to the Railway in 1952.

CO-OPERATION UNDER THE CANADIAN NATIONAL-CANADIAN PACIFIC ACT, 1933

33. Under an amendment enacted in 1951 to the Canadian National-Canadian Pacific Act, the Canadian National is required to report annually on co-operative activity.

34. Joint study is being given to the extension of passenger train pooling and to the abandonment of functionally duplicate rail lines between the following points:

	<i>Distance</i>
Middleton-Bridgetown, Nova Scotia	13·2 Miles
Louise-Deloraine, Manitoba	56·3 Miles
Hallboro-Beulah, Manitoba	75·2 Miles
Reston, Manitoba-Wolseley, Sask.	122·4 Miles
Langdon-Beiseker, Alberta	32·6 Miles
Forth-Ullin, Alberta	71·2 Miles

35. Co-operative projects in effect during 1951 were estimated to produce an annual joint economy, under the economic and traffic conditions at the time the measures were instituted, of \$1,189,240 per year. It has not proved possible to estimate the annual value, at the time of this Report, of those continuing co-operative measures. In future Reports this information will be supplied. It is reasonable to anticipate that the current joint economy will be in excess of the figures shown. In addition to those projects where a definite economy could be estimated, there are other forms of co-operative action in effect which are productive of substantial but indefinite benefits.

36. The Canadian National-Canadian Pacific Act extends beyond normal business relations and imports into an agreement the element of national interest giving sanction to action which would otherwise be unlawful. In addition to co-operation under the provisions of the Canadian National-Canadian Pacific Act, there has been and continues to be a great deal of co-operation

between the two Companies, as evidenced by long-standing agreements for joint use of terminals, joint running rights, joint switching and other types of operation, detouring agreements for use of each others' lines in cases of necessity, as well as joint ownership of properties.

37. The duty laid upon the Management to pursue co-operative economy is being diligently discharged.

EMPLOYEE RELATIONS

38. With one exception the wage agreements made during March, 1951, with the operating trades employees are now open for negotiation, and discussions with the respective labour organizations are in progress. The two-year contracts with non-operating employees are subject to revision effective September 1, 1952, and notices of intention to seek revision of the current agreements may be served by either of the parties within 60 days of that date.

39. The Executive Order, dated August 27, 1950, of the United States Government placing all railways in the United States under Federal control is still in force. This Order, which affects Canadian National and subsidiary lines within the United States, arose out of a threatened strike by employees of the operating trades. Agreements were made with the trainmen's organization in May, 1951 but have yet to be concluded with the engineers, firemen and conductors.

Pensions

40. A revision and improvement of the Canadian National pension plan has been made effective as from January 1, 1952.

41. The new plan is the product of many months of study during which Management has had the benefit of advice and co-operation from the employees' representatives.

42. A brief description of the revised plan is contained in an Appendix to this Report, as reproduced from an explanatory circular to employees and pensioners.

Personnel

43. Further progress was made during 1951 in the development of a broad staff function for the Personnel Department, in order that Management may deal more effectively with the human resources which are the Railway's greatest asset. The responsibilities of the Personnel Department include the provision of assistance to line management in selecting, training and promoting employees, the application of modern techniques to personnel administration, and the co-ordination of all aspects of personnel policy.

44. A system of personnel appraisal and job evaluation has been planned for the non-scheduled employees, beginning with junior supervisory positions. For this purpose a comprehensive series of records, including a personnel inventory, is in course of preparation.

45. The Office Services Branch of the Personnel Department has been actively engaged in studies of office equipment, methods, and procedures, giving assistance in this field to other Departments in the organization.

46. Employment Bureaux are now in operation at Winnipeg, Toronto, Montreal and Quebec City. The Bureaux facilitate the transfer of employees between Departments and perform the specialized task of interviewing and processing candidates for employment. In due course these offices will be expanded both in number and in function.

47. The Labour Management Co-operative Plan continues to provide an important channel of communication between employees and supervisory officers at successive levels of authority. The Suggestions Plan, which is open to all employees, has also proven successful in developing constructive ideas to the mutual benefit of the Company and the employees. In these and in other directions encouragement will be given to activities which contribute to the development of sound employer-employee relations.

APPENDIX

Brief Description of the Revised Pension Plan for Canadian National Railways
The revised plan is in two parts.

Part 1 is the existing plan with some amendments designed to make better provision for present and future employees who become disabled, and also for early retirement. It provides a basic pension of \$25 per month at the expense of the Company and also for a supplemental pension at the joint expense of the Company and the employee. It is optional with the employee whether he contributes or not. He may contribute an even percentage of his compensation from 1% to 10% and the Company will match his contribution after 10 years' service but not in excess of 5%. The amount of the supplemental pension is that which the joint contributions with compound interest will buy. The plan makes provision for benefits for service prior to 1935 when the present contributory plan was established.

The employee may select the type of pension he wishes, that is to say he may elect to take it in the form of an annuity payable during his lifetime, or payable during his lifetime but guaranteed in any event for either 5, 10, or 15 years, or in the form of a joint life and last survivor annuity. The amount of a guaranteed or survivor type annuity is of course less than the single life annuity but is the actuarial equivalent of the single life annuity.

As amended the plan provides pensions for disabled employees provided they have attained age 50 with not less than 20 years' service. If the portion of the pension payable at the expense of the Company is less than \$40 per month (on a single life basis) the Company will grant a special disability allowance so as to increase its portion of the pension to \$40 until the employee reaches age 65. If an employee with these age and service requirements should die in service the Pension Board may grant a survivor benefit equal to one half the amount of such employee's pension, on a single life basis, but excluding the allowance referred to. Such benefit will be payable during the lifetime of a surviving spouse, or for 10 years from the date of the employee's retirement, whichever period is longer.

Normal retirement is at age 65 with 20 years' service, but provision is made for early retirement with reduced pensions. For each year below age 65, one additional year's service will be required, so that an employee may retire at age 64 with 21 years' service or age 55 with 30 years' service, or anywhere between where the age and years of service add to 85.

The optional and flexible provisions of Part 1 are considered by many employees to be preferable to a more rigid compulsory contributory plan. It allows employees considerable freedom to shape their railway pension to their needs as they see them.

Part 2 is designed to meet the requirements of those who wish to obtain larger pensions and who are willing to join a plan under which contributions are compulsory. Employees will be covered by Part 1 unless they elect to

transfer to Part 2, which election will be irrevocable. They will be given ample time to make their election.

Under this Part the employee must contribute 5% of his compensation and the Company will pay the balance of the cost. The pension will be a percentage, based on length of allowable service, of the employee's average compensation during the last 5 or 10 years' service whichever is more favourable to the employee. The percentage will be 1% for each year of service up to 20 years. 1½% for each year during the next 10 years, and 1½% for each year over 30 years' service. Fractions of a year will be computed proportionately. This pension will be payable during the lifetime of the employee. On the decease of the employee one half the pension will be payable during the lifetime of a surviving spouse, or for 10 years from the date of the employee's retirement, whichever period is the longer.

A provision is also made for pensions to disabled employees. These benefits are available to employees who have attained age 50, who have at least 20 years' allowable service, and who are certified by the Company's Chief Medical Officer to be unfitted for further service by reason of permanent physical or mental disability. If an employee with these age and service requirements should die in service the Pension Board may grant a survivor benefit similar in terms to the one referred to in the preceding paragraph.

The normal retirement date is age 65 but a provision is made for early retirement with reduced pensions, the age and service requirements being similar to those referred to under Part 1.

The pension benefits are conditional on the employee having paid 5% of his compensation throughout the period of his service from January 1st, 1935, or from the date he last entered the service if entry was later than January 1st, 1935, until the date of his retirement. An employee whose total contributions prior to date of transfer are less than the required amount will be permitted to make good the arrears during his remaining service by additional contributions, or lump sum payments, but if arrears are not made good the pension will be reduced proportionately.

An employee who transfers from Part 1 to Part 2 and who had contributed under the existing plan in excess of 5% of his compensation, will receive repayment for the amount of the excess.

To Existing Pensioners

The foregoing revisions are applicable to employees in the service at January 1st, 1952, and who had not attained age 65 prior thereto. Effective July 1st, 1952, some revisions to existing pensions will be made so that there will be substantial equality in the treatment of pensioners then living with employees who will retire in the future. The following arrangements therefore have reference to pensioners who had retired before the new rules became effective. A pensioner who contributed during service the full 5% from January 1st, 1935, to the date of his retirement may elect to have his pension computed as provided in Part 2. If he so elects, he must surrender his contract, his present pension will be terminated, and the revised pension will be payable from July 1st, 1952—not from the date of his retirement. There will be no option as to type of pension, the revised pension will be the single type provided for Part 2 pensions. If the pensioner is deceased, the right to elect is terminated; it is not available to a beneficiary. If the pensioner's contributions during service were less than 5% from January 1st, 1935, to the date of his retirement, then, subject to all the conditions mentioned, his pension will

be the proportionate part of the Part 2 pension to which he would have been entitled had he made the full 5% contributions. If the pensioner had made contributions in excess of 5%, the pension resulting from the excess will be continued in the type which the pensioner selected at the date of his retirement. The pensioner's status with respect to such matters as his eligibility to receive a pension and the period of his allowable service will remain as determined under the rules in effect at the date of his retirement. As in the case of the revised plan a rule of limitation has been included. A pensioner who did not contribute during his service towards a supplementary annuity will continue to receive the basic or service pension to which he is entitled under the existing rules.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1951

ASSETS

INVESTMENTS	
Road and equipment property.....	\$2,245,260.580
Improvements on leased property...	1,097,308
Miscellaneous physical property.....	65,523,665
	<u>\$2,311,881,553</u>

Capital and other reserve funds:	
System securities at par.....	\$ 748,500
Other assets at cost.....	7,589,526
	<u>8,338,026</u>

Investments in affiliated companies:	
Other investments:	53,119,620
System securities at par.....	\$ 205,000
Other assets at cost.....	815,619
	<u>1,020,619</u>

\$2,374,359,818**CURRENT ASSETS**

Cash.....	\$ 19,536,168
Temporary cash investments at cost.....	3,643,750
Special deposits.....	5,293,620
Net balance receivable from agents and conductors.....	26,087,142
Miscellaneous accounts receivable.....	18,981,599
Government of Canada—Due on deficit account.....	1,031,996
Material and supplies.....	93,791,107
Interest and dividends receivable.....	80,579
Accrued accounts receivable.....	5,659,246
Other current assets.....	538,913
	<u>174,614,210</u>

DEFERRED ASSETS

Working fund advances.	
Insurance fund:	\$ 487,841
System securities at par.....	\$ 5,733,200
Other assets at cost.....	7,850,057
	<u>13,583,257</u>

Pension contract fund:

System securities at par.....	\$ 9,010,500
Other assets at cost.....	50,689,500
	<u>59,700,000</u>
Other deferred assets.....	2,798,918
	<u>76,570,016</u>

LIABILITIES

STOCKS	
Capital stock of subsidiary companies held by public.....	\$ 4,518,890

FUNDED DEBT	
Held by public.....	\$ 599,499,835
Held in special funds.....	15,697,200
	<u>615,197,035</u>

GOVERNMENT OF CANADA LOANS.....	
	<u>857,573,774</u>

CURRENT LIABILITIES

Traffic and car-service balances.....	\$ 13,548,324
Audited accounts and wages payable.....	32,512,702
Miscellaneous accounts payable.....	7,320,375
Government of Canada—Interest payable.....	22,700,242
Interest matured unpaid.....	4,261,297
Unmatured interest accrued.....	5,059,322
Accrued accounts payable.....	9,233,018
Taxes accrued.....	3,517,609
Other current liabilities.....	2,671,488
	<u>100,824,377</u>

DEFERRED LIABILITIES

Pension contract reserve.....	\$ 59,700,000
Other deferred liabilities.....	7,609,112
	<u>67,309,112</u>

RESERVES AND UNADJUSTED CREDITS

Insurance reserve.....	\$ 13,583,257
Accrued depreciation—Canadian Lines—Equipment only.....	157,534,973
Accrued depreciation—U.S. Lines—Road and equipment.....	27,937,997
Accrued amortization of defence projects.....	3,062,522
Unadjusted credits.....	9,947,798
	<u>212,086,547</u>

GOVERNMENT OF CANADA—PROPRIETOR'S EQUITY—(See note)

Represented by:

1,000,000 shares of no par value capital stock of Canadian National Railway Company.....	\$ 18,000,000
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust.....	378,518,135
Capital expenditures by Government of Canada Canadian Government Railways.....	379,877,514
	<u>776,395,649</u>

CONTINGENT LIABILITIES

Major contingent liabilities, as shown on statement attached.....

8,341,430

\$2,633,885,384

Sterling and United States currencies converted at par of exchange.

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1927.

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1951.

In our opinion, proper books of account have been kept by the System, and the consolidated balance sheet at the 31st December, 1951, and the relative consolidated income account for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the System.

The total amount of the investments in fixed properties and equipment as brought into the System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for equipment has been applied from the 1st January, 1940, retirement accounting continuing in effect for fixed properties.

In our opinion, subject to the foregoing, the above consolidated balance sheet and the relative consolidated income account are properly drawn up so as to give a true and fair view of the state of the System's affairs at the 31st December, 1951, and of the consolidated income and expenses for the year.

The transactions of the System that have come under our notice have, in our opinion, been within the powers of the System. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.
Chartered Accountants.

10th March, 1952.

CANADIAN NATIONAL RAILWAYS

Consolidated Income Account

	1951	1950
RAILWAY OPERATING REVENUES		
Freight.....	\$498,800,344	\$445,780,004
Passenger.....	47,475,661	39,889,206
Mail.....	7,311,445	7,984,695
Express department.....	30,670,031	25,806,125
Communications department.....	12,032,631	10,556,435
All other.....	28,544,008	23,815,116
Total operating revenues.....	<u>\$624,834,120</u>	<u>\$553,831,581</u>
RAILWAY OPERATING EXPENSES		
Maintenance of way and structures.....	\$111,560,852	\$ 90,782,435
Maintenance of equipment.....	135,319,782	114,166,205
Traffic.....	10,429,825	9,453,716
Transportation.....	291,366,944	250,748,104
Miscellaneous operations.....	6,262,293	5,408,988
General.....	25,210,525	23,437,631
Total operating expenses.....	<u>\$580,150,221</u>	<u>\$493,997,079</u>
NET OPERATING REVENUE.....	<u>\$ 44,683,899</u>	<u>\$ 59,834,502</u>
TAXES AND RENTS		
Taxes.....	\$ 11,573,914	\$ 11,944,611
Equipment rents—Net debit.....	7,172,396	7,209,310
Joint facility rents—Net debit.....	340,140	236,251
TOTAL TAXES AND RENTS.....	<u>\$ 19,086,450</u>	<u>\$ 19,390,172</u>
NET RAILWAY OPERATING INCOME.....	<u>\$ 25,597,449</u>	<u>\$ 40,444,330</u>
OTHER INCOME		
Income from lease of road.....	\$ 51,499	\$ 102,471
Miscellaneous rent income.....	1,109,768	1,101,463
Income from non-transportation property.....	609,252	590,038
Results of separately operated properties.....	1,079,385	333,267
Hotel operating income.....	588,485	565,853
Dividend income.....	414,411	214,303
Interest income.....	2,242,019	2,620,540
Miscellaneous income.....	1,324,414	1,999,278
Profit and loss—Net.....	1,422,073	75,844
TOTAL OTHER INCOME.....	<u>\$ 8,841,306</u>	<u>\$ 6,936,523</u>
DEDUCTIONS FROM INCOME		
Rent for leased roads.....	\$ 551,554	\$ 696,285
Miscellaneous rents.....	672,809	642,082
Miscellaneous taxes.....	132,559	189,883
Interest on unfunded debt.....	236,287	316,282
Amortization of discount on funded debt.....	573,602	731,409
Miscellaneous income charges.....	488,825	2,388,140
TOTAL DEDUCTIONS FROM INCOME.....	<u>\$ 2,655,636</u>	<u>\$ 4,964,081</u>
NET INCOME AVAILABLE FOR INTEREST.....	<u>\$ 31,783,119</u>	<u>\$ 42,416,772</u>
INTEREST CHARGES		
Interest on funded debt—Public.....	23,467,703	24,019,158
Interest on Government loans.....	23,347,412	21,658,849
Income Deficit.....	<u>\$ 15,031,996</u>	<u>\$ 3,261,295</u>
The fixed Charges of the System included in the above statement are as follows:		
Rent for leased roads.....	\$ 551,554	\$ 696,285
Interest on unfunded debt.....	236,287	316,282
Amortization of discount on funded debt.....	573,602	731,409
Interest on funded debt—Public.....	23,467,703	24,019,158
Interest on Government loans.....	23,347,412	21,658,849
	<u>\$ 48,176,558</u>	<u>\$ 47,421,983</u>

OPERATING REVENUES

OPERATING REVENUES

	1951	1950
Freight.....	\$490,290,463	\$438,674,682
Payments under Maritime Freight Rates Act.....	8,509,881	7,105,322
Passenger.....	47,475,661	39,889,206
Baggage.....	156,839	150,108
Sleeping car.....	3,928,087	3,423,774
Parlor and chair car.....	367,690	355,747
Mail.....	7,311,445	7,984,695
Express department.....	30,670,031	25,806,125
Railway Express Agency.....	501,836	417,081
Other passenger-train.....	14,616	15,885
Milk.....	500,883	487,891
Switching.....	5,564,378	4,867,516
Water transfers.....	1,789,914	1,564,583
Dining and buffet.....	3,350,653	2,754,600
Restaurants.....	327,897	288,855
Station, train and boat privileges.....	425,966	359,860
Parcel room.....	71,299	63,190
Storage—Freight.....	414,115	202,777
Storage—Baggage.....	57,293	43,418
Demurrage.....	2,895,635	1,376,102
Communications department.....	12,032,631	10,556,435
Telegraph commissions (U.S.).....	9,800	9,190
Grain elevator.....	743,901	647,647
Rents of buildings and other property.....	949,665	968,166
Miscellaneous.....	5,664,923	5,105,823
Joint facility—Cr.....	934,178	842,562
Joint facility—Dr.....	125,569	129,659
	<u>\$624,834,120</u>	<u>\$553,831,581</u>

OPERATING EXPENSES

MAINTENANCE OF WAY AND STRUCTURES

	1951	1950
Superintendence.....	\$ 7,338,085	\$ 6,025,974
Roadway maintenance.....	12,634,015	11,762,480
Tunnels and subways.....	168,119	128,318
Bridges, trestles and culverts.....	4,468,840	3,821,502
Ties.....	9,850,138	10,045,214
Rails.....	6,834,178	7,779,174
Other track material.....	5,717,921	5,807,490
Ballast.....	2,092,985	1,608,015
Track laying and surfacing.....	27,983,529	23,785,402
Fences, snowsheds and signs.....	1,189,421	1,008,036
Station and office buildings.....	5,079,732	3,908,771
Roadway buildings.....	689,424	560,322
Water stations.....	977,005	869,998
Fuel stations.....	462,412	393,072
Shops and enginehouses.....	3,409,385	2,923,431
Grain elevators.....	80,008	72,411
Storage warehouses.....	3,508	1,882
Wharves and docks.....	274,819	266,064
Communication systems.....	6,074,769	4,655,839
Signals and interlockers.....	1,896,862	1,702,624
Power plants.....	29,125	23,324
Power-transmission systems.....	433,868	361,438
Miscellaneous structures.....	7,568	7,803
Road property—Depreciation—U.S. Lines.....	963,614	936,199
Road property—Retirements.....	2,202,655	2,441,980
Deferred maintenance—Cr.....	—	9,000,000
Roadway machines.....	1,504,292	1,228,840
Dismantling retired road property.....	317,388	247,325
Small tools and supplies.....	1,948,665	1,587,323
Removing snow, ice and sand.....	5,519,522	4,847,832
Public improvements.....	778,943	618,881
Injuries to persons.....	889,531	843,036
Insurance.....	268,557	265,284
Stationery and printing.....	139,304	101,317
Other expenses.....	9,509	23,747
Right-of-way expenses.....	84,670	61,368
Maintaining joint facilities—Dr.....	1,569,370	1,362,143
Maintaining joint facilities—Cr.....	2,330,884	2,301,474
	<u>\$111,560,852</u>	<u>\$ 90,782,435</u>

SESSIONAL COMMITTEE

OPERATING EXPENSES—Continued

	1951	1950
MAINTENANCE OF EQUIPMENT		
Superintendence.....	\$ 2,913,755	\$ 2,521,479
Shop machinery—Repairs.....	4,150,423	3,467,355
Power-plant machinery—Repairs.....	238,399	250,671
Machinery—Retirements.....	162,897	221,717
Machinery—Depreciation—U.S. Lines.....	76,431	73,566
Dismantling retired machinery.....	5,862	12,295
Steam locomotives—Repairs.....	37,714,654	33,144,615
Other locomotives—Repairs.....	2,253,476	1,485,400
Freight-train cars—Repairs.....	40,774,805	31,390,144
Passenger-train cars—Repairs.....	17,482,277	14,168,444
Floating equipment—Repairs.....	1,746,731	1,477,177
Work equipment—Repairs.....	4,085,473	3,362,870
Express department equipment—Repairs.....	367,387	303,930
Miscellaneous equipment—Repairs.....	255,375	254,671
Miscellaneous equipment—Retirements.....	21,421	8,865
Dismantling retired equipment.....	259,987	175,942
Equipment—Depreciation.....	21,288,394	20,544,446
Express department equipment—Depreciation.....	181,872	167,181
Injuries to persons.....	785,076	644,945
Insurance.....	354,277	342,071
Stationery and printing.....	117,896	87,598
Other expenses.....	40,263	38,822
Joint maintenance of equipment—Dr.....	362,187	301,198
Joint maintenance of equipment—Cr.....	319,536	279,467
	<u>\$135,319,782</u>	<u>\$114,166,205</u>
TRAFFIC		
Superintendence.....	\$ 3,546,503	\$ 3,096,560
Outside agencies.....	4,179,503	3,816,627
Advertising.....	1,317,215	1,247,466
Traffic associations.....	188,095	171,956
Stationery and printing.....	593,347	567,834
Industrial and development.....	341,289	304,376
Colonization and agriculture.....	263,873	248,987
	<u>\$ 10,429,825</u>	<u>\$ 9,453,716</u>
TRANSPORTATION		
Superintendence.....	\$ 6,549,007	\$ 5,398,288
Dispatching trains.....	3,493,374	2,985,174
Station employees.....	39,578,843	33,362,761
Weighing, inspection and demurrage bureaus.....	157,563	147,800
Coal and ore wharves.....	118,626	98,174
Station supplies and expenses.....	2,990,517	2,656,899
Yardmasters and yard clerks.....	8,325,456	6,934,438
Yard conductors and brakemen.....	15,414,304	12,737,901
Yard switch and signal tenders.....	1,466,736	1,217,132
Yard enginemen.....	7,127,313	6,297,270
Yard motormen.....	3,584,329	2,766,169
Yard switching fuel.....	8,510,271	7,905,981
Yard switching power produced.....	31,830	28,469
Yard switching power purchased.....	116,286	101,577
Water for yard locomotives.....	206,395	207,687
Lubricants for yard locomotives.....	165,803	145,177
Other supplies for yard locomotives.....	119,402	94,190
Enginehouse expenses—Yard.....	3,375,084	2,815,396
Yard supplies and expenses.....	359,161	287,907
Train enginemen.....	23,443,653	19,765,929
Train motormen.....	1,810,283	1,089,590
Train fuel.....	50,826,078	47,213,248
Train power produced.....	21,173	13,562
Train power purchased.....	106,497	84,964
Water for train locomotives.....	1,818,073	1,728,524
Lubricants for train locomotives.....	979,688	842,327
Other supplies for train locomotives.....	649,806	495,955
Enginehouse expenses—Train.....	10,654,393	8,902,996
Trainmen.....	29,923,881	24,433,996
Train supplies and expenses.....	18,589,919	15,515,838
Operating sleeping cars.....	3,056,299	2,647,750
Signal and interlocker operation.....	852,812	755,753
Carried forward	<u>\$244,422,855</u>	<u>\$209,678,822</u>

OPERATING EXPENSES—Continued

TRANSPORTATION—Continued

	Brought forward	1951	1950
Crossing protection.....		\$244,422,855	\$209,678,822
Drawbridge operation.....		1,423,771	1,230,351
Communication system operation.....		262,241	223,310
Operation floating equipment.....		10,294,736	8,701,924
Express department operation.....		4,889,208	4,373,106
Stationery and printing.....		19,789,936	16,750,847
Other expenses.....		1,250,521	1,027,786
Insurance.....		2,071,450	1,868,155
Clearing wrecks.....		287,882	284,872
Damage to property.....		1,014,577	614,286
Damage to live stock on right-of-way.....		181,640	108,737
Loss and damage—Freight.....		80,634	89,170
Loss and damage—Baggage.....		2,824,906	2,690,351
Injuries to persons.....		9,059	18,205
Operating joint yards and terminals—Dr.....		1,963,296	2,446,476
Operating joint yards and terminals—Cr.....		2,528,986	2,157,950
Operating joint tracks and facilities—Dr.....		2,749,796	2,356,758
Operating joint tracks and facilities—Cr.....		1,513,750	1,439,623
		692,708	599,109
		<u>\$291,366,944</u>	<u>\$250,748,104</u>

MISCELLANEOUS OPERATIONS

Dining and buffet service.....	\$ 4,816,640	\$ 4,062,216
Restaurants.....	335,446	308,086
Grain elevators.....	307,783	202,220
Other miscellaneous operations.....	417,007	500,765
Operating joint miscellaneous facilities—Dr.....	385,417	335,701
	<u>\$ 6,262,293</u>	<u>\$ 5,408,988</u>

GENERAL

Salaries and expenses of general officers.....	\$ 801,809	\$ 730,027
Salaries and expenses of clerks and attendants.....	9,912,021	9,000,732
General office supplies and expenses.....	697,483	579,128
Law expenses.....	548,465	576,347
Relief department expenses.....	42,500	42,500
Pensions.....	12,320,390	11,802,098
Stationery and printing.....	465,903	385,148
Valuation expenses.....	10,398	12,271
Other expenses.....	308,574	217,357
General joint facilities—Dr.....	118,165	106,754
General joint facilities—Cr.....	15,183	14,731
	<u>\$ 25,210,525</u>	<u>\$ 23,437,631</u>

OPERATING EXPENSES AND TOTAL PAYROLL

OPERATING EXPENSES	1939	1950	1951
Total expenses—thousands.....	\$182,965	\$493,997	\$580,150
Per cent of total revenue.....	89.77	89.20	92.85
Distribution of operating expense dollar:—			
Payrolls.....	¢ 61.48	59.85	60.44
Materials.....	29.58	31.49	29.91
Other expenses.....	8.94	8.66	9.65
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

PAYROLL

(Excluding hotel and subsidiary company employees)			
Average number of employees.....	78,129	112,874	121,199
Total payroll—thousands.....	\$122,354	\$318,208	\$381,654
Average earnings per employee.....	\$ 1,566	\$ 2,819	\$ 3,149

PROPERTY INVESTMENT ACCOUNT

Balance 1st. January, 1951

\$2,226,102,727

Additions and betterments,
less retirements—Year 1951

ROAD

New lines constructed.....	\$ 1,280,230	
Lines acquired.....	4,258,484	
Montreal terminal development.....	1,233,919	
Abandoned lines.....	603,801	
Rails and fastenings.....	2,038,913	
Tie plates and rail anchors.....	2,031,790	
Ballast.....	631,509	
Large freight terminals.....	2,865,854	
Yard tracks and sidings.....	2,032,216	
Roadway machines.....	843,212	
Bridges, trestles and culverts.....	1,380,237	
Tunnels.....	142,193	
Crossing protection.....	508,250	
Stations and station facilities.....	1,280,927	
Water supplies.....	125,742	
Shops, enginehouses and machinery.....	3,491,100	
Automatic signals and interlocking plants.....	1,611,062	
Communications department.....	4,132,418	
Non-carrier property.....	1,233,025	
Stores department buildings and equipment.....	147,488	
General.....	608,362	\$ 31,273,130

EQUIPMENT

Equipment purchased or built.....	\$ 56,554,379	
Equipment retirements.....	5,080,532	
General betterments to equipment.....	4,771,889	
Equipment conversions.....	259,973	
Express and miscellaneous equipment.....	677,367	57,183,076

HOTELS..... 2,497,182

SEPARATELY OPERATING PROPERTIES..... 5,174,562 85,778,826

BALANCE 31ST DECEMBER, 1951..... \$2,311,881,53

GOVERNMENT OF CANADA LOANS—PRINCIPAL AND INTEREST

	Principal outstanding at Dec. 31, 1951	Interest accrued 1951	Average interest rate
LOANS FOR			
Repatriation of securities held in the U.K.....	\$391,452,044	\$13,700,795	3.50%
Debt redemption (See note).....	339,563,942	7,314,676	2.42%
Capital expenditures and working capital.....	63,455,019	1,025,871	3.50%
Rolling stock—Hire-purchase agreements.....	27,287,765	734,779	2.55%
Investment in Trans-Canada Air Lines.....	19,043,023	571,291	3.00%
Canadian Government Railways—Working capital at consol- idation (1923).....	\$ 16,771,981	—	—
	<u>\$857,573,774</u>	<u>\$23,347,412</u>	<u>2.97%</u>

Note:—\$128,207,000 payable in U.S. currency.

FUNDED DEBT—PRINCIPAL AND INTEREST

GUARANTEED BY GOVERNMENT OF CANADA

Rate %	Maturity (See note)		Year issued and currency in which payable	Principal outstanding at Dec. 31, 1951	Interest accrued 1951
5	Perpetual	G.T.R. Debenture Stock.	1875 Sterling	\$ 1,016,092	\$ 50,804
5	Perpetual	G.W. Debenture Stock....	1858 Sterling	499,709	24,985
4	Perpetual	G.T.R. Debenture Stock	1883 Sterling	5,446,491	217,860
4	Perpetual	Nor. Ry. Debenture Stock	1884 Sterling	22,591	904
3	July 10, 1953	Can. Nor. 1st. Mtge. Deb. Stock.....	1903 Sterling	1,162,768	34,883
3½	July 20, 1958	Can. Nor. 1st. Mtge. Deb. Stock.....	1910 Canadian..... Sterling.....	5,246,268 390,239	183,620 13,658
3½	May 4, 1960	C.N.A. 1st. Mtge. Deb. Stock.....	1911 Sterling.....	550,727	19,275
3½	May 19, 1961	C.N.O. 1st. Mtge. Deb. Stock.....	1911 Sterling.....	3,597,518	125,913
3	Jan. 1, 1962	G.T.P. 1st. Mtge. Bonds..	1905 Can-US-Stlg.	26,465,130	793,954
4	Jan. 1, 1962	G.T.P. Sterling Bonds....	1914 Can-US-Stlg.	7,999,074	319,963

CANADIAN NATIONAL ISSUES:—

5	Feb. 1, 1954	30 Year Guaranteed Bonds	1924 Canadian	50,000,000	2,500,000
4¾	June 15, 1955	25 Year Guaranteed Bonds	1930 Can-US-Stlg.	48,496,000	2,303,560
4½	Feb. 1, 1956	25 Year Guarantee d Bonds	1931 Can-US-Stlg.	67,368,000	3,031,560
4½	July 1, 1957	30 Year Guaranteed Bonds	1927 Can-US	64,136,100	2,886,120
3	Jan. 15, 1959 (a)	20 Year Guaranteed Bonds	1939 Canadian	35,000,000	1,050,000
3	Jan. 3, 1966 (b)	17 Year Guaranteed Bonds	1949 Canadian	35,000,000	1,050,000
2¾	Jan. 2, 1967 (c)	20 Year Guaranteed Bonds	1947 Canadian	50,000,000	1,375,000
2¾	Sept. 15, 1969 (d)	20 Year Guaranteed Bonds	1949 Canadian	70,000,000	2,012,500
2¾	Jan. 16, 1971 (e)	21 Year Guaranteed Bonds	1950 Canadian	40,000,000	1,150,000
2¾	June 15, 1975 (f)	25 Year Guaranteed Bonds	1950 U.S.	6,000,000	165,000
Total.....				\$518,396,607	\$ 19,309,559

CANADIAN NATIONAL SERIAL EQUIPMENT OBLIGATIONS

2¾	Sept. 15, 1953	Trust Series "P".....	1938 Canadian	\$ 1,100,000	\$ 39,990
2	Dec. 1, 1957	Trust Series "R".....	1947 Canadian	3,360,000	77,467
1½	Mar. 15, 1958	Trust Series "S".....	1948 Canadian	19,600,000	428,896
2½	Nov. 1, 1958	Trust Series "T".....	1948 Canadian	15,050,000	366,844
2½	Mar. 15, 1960	Trust Series "U".....	1950 Canadian	18,700,000	443,437
2¾	Jan. 15, 1961	Trust Series "V".....	1951 Canadian	12,825,000	315,743
Total.....				\$ 70,635,000	\$ 1,672,377

OTHER ISSUES

4	Perpetual	Can. Nor. Cons. Deben- ture Stock.....	1903 Sterling	\$ 3,992,930	\$ 159,717
4	Perpetual	C.N.O. Cons. Debenture Stock.....	1909 Sterling	889,597	35,584
4	Perpetual	C.N.O. Guar. Debenture Stock.....	1906 Sterling	465,545	18,622
4	Perpetual	Q. & L. St. J. 1st. Mtge. Deb. Stock.....	1912 Sterling	285,342	11,414
4	Jan. 1, 1955	Can. Atl. 1st. Mtge. Bonds	1905 Can-US-Stlg.	9,947,934	397,918
4	Apr. 1, 1955	G.T.P. 2nd. Mtge. Bonds, Paririe "A".....	1905 Can-US-Stlg.	3,574,530	142,981
4	Apr. 1, 1955	G.T.P. 2nd. Mtge. Bonds, Mountain "B".....	1905 Can-US-Stlg.	3,144,906	125,796
4	Apr. 1, 1955	G.T.P. 1st. Mtge. Bonds, "Lake Superior".....	1905 Can-US-Stlg.	2,152,008	86,080
4	Sept. 1, 1956	Pem. Sou. 1st. Mtge. Bonds	1906 Canadian	150,000	6,000
2½	Mar. 1, 1957 (g)	Nfld. Fy. Reg'd Instal- ment Notes.....	1941 U.S.	782,613	21,036
5	Nov. 15, 1958	Can. Nat. Indebt. to Prov. of N.B.....	1929 Canadian	380,023	19,001
4½	Jan. 1, 1980	G.W.T. 1st. Mtge. Series "A" Bonds.....	1930 Can-US-Stlg.	400,000	18,000
Total.....				\$ 26,165,428	\$ 1,042,149

Interest on securities retired in 1951.

— \$ 1,443,618

Grand total..... \$615,197,035 \$ 23,467,793

Note:—(a) Callable at par on or after Jan. 15, 1954.

(b) Callable at par on or after Jan. 3, 1961.

(c) Callable at par on or after Jan. 2, 1964.

(d) Callable at par on or after Sept. 15, 1964.

(g) Callable at par at any time.

(e) Callable at par on or after Jan. 16, 1966.

(f) Callable on or before June 14, 1954, at 102½ thereafter at varying redemption pre-
miums.

SESSIONAL COMMITTEE

INVESTMENTS IN AFFILIATED COMPANIES

Company	Total par value outstanding	Owned by Can. Nat. System at Dec. 31, 1951		
		Par value	Book value	
STOCKS				
The Belt Railway Company of Chicago.....	\$ 3,120,000	\$ 240,000	\$ 240,000	
Canadian Government Merchant Marine, Limited.....	800	800	800	
Chicago & Western Indiana Railroad Company.....	5,000,000	1,000,000	1,000,000	
The Detroit & Toledo Shore Line Railroad Company.....	3,000,000	1,500,000	1,500,000	
Detroit Terminal Railroad Company.....	2,000,000	1,000,000	1,000,000	
Northern Alberta Railways Company.....	12,500,000	6,250,000	6,250,000	
The Public Markets, Limited.....	1,150,000	575,000	575,000	
Railway Express Agency, Incorporated (no par value)....	1,000 shares	6 shares	600	
Shawinigan Falls Terminal Railway Company.....	300,000	150,000	62,500	
The Toronto Terminals Railway Company.....	500,000	250,000	250,000	
The Toledo Terminal Railroad Company.....	4,000,000	387,200	387,200	
Trans-Canada Air Lines.....	25,000,000	25,000,000	25,000,000	
Vancouver Hotel Company, Limited.....	150,000	75,000	75,000	\$36,341,100
BONDS				
Northern Alberta Railways Co. 1st. Mortgage Bonds.....	\$22,455,000	\$11,227,500	\$11,227,500	
The Toronto Terminals Railway Co. 1st. Mortgage Bonds.....	25,610,000	12,805,000	12,805,000	24,032,500
ADVANCES				
The Belt Railway Company of Chicago.....			\$ 16,502	
Chicago & Western Indiana Railroad Company.....			3,468,525	
Northern Alberta Railways Company.....			75,000	
Railway Express Agency, Incorporated.....			173,493	
Shawinigan Falls Terminal Railway Company.....			12,500	3,746,020
DEPOSIT				
Trans-Canada Air Lines.....				11,000,000
Total.....				\$53,119,620

MAJOR CONTINGENT LIABILITIES

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4½—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY

Assumed by Grand Trunk Western Railroad Company in respect of \$5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68%.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st. July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st. December, 1951, are:—

Issued for "common" property.....	\$39,973,019
Issued for "exclusive" property.....	252,535

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st. March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st. December, 1951, is \$12,785,000.

C.N.R. PENSION PLAN

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

	Year 1951	Balance at 31st Dec., 1951	Per cent of total
EQUITY CAPITAL*			
Government of Canada—Proprietor's Equity:—			
Capital stock of Canadian National Railway Com- pany.....	No change	\$ 18,000,000	
Capital stock of The Canadian National Railways Securities Trust.....	No change	378,518,135	
Capital expenditures by Government of Canada on Canadian Government Railways.....	No change	379,877,514	
		<u>\$ 776,395,649</u>	34.5%
BORROWED CAPITAL			
Funded debt.....	\$ 43,833,206	\$ 615,197,035	
Government of Canada loans.....	117,726,260	857,573,774	
		<u>\$1,472,770,809</u>	65.5%
		<u>\$2,249,166,458</u>	100.0%

*Excluding shares of subsidiary companies held by public—\$4,518,890.

FINANCING

YEAR 1951

FUNDED DEBT

New issue:—

2¾% Equipment Trust Certificates Series "V"
1951, maturing serially to January 15, 1961.. \$ 13,500,000

Retirements:—

4½% Canadian National Railway Company Twenty Year
Guaranteed Bonds, due September 1, 1951..... \$ 48,022,000
Equipment Trusts—Serial payments..... 9,169,000
2½% Newfoundland Railway Registered Instalment Notes 142,206 57,333,206

Decrease in funded debt..... \$ 43,833,206

GOVERNMENT OF CANADA

New loans:—

For capital purposes..... \$ 57,568,453
For refunding purposes..... 63,459,825 \$ 121,028,278

Loans repaid:—

Rolling stock—Serial payments..... 3,302,018

Increase in loans from Government of Canada..... \$ 117,726,260

Increase in capital debt..... \$ 73,893,054

The issue of \$13,500,000 2¾% Equipment Trust Certificates Series "V" 1951, dated January 15, 1951, was made to finance to the extent of approximately 75% new equipment costing \$18,788,862. The certificates which mature in twenty semi-annual instalments were sold at a price of 99.00, representing an annual interest cost to the Company of 2.95%.

CAPITAL STOCKS OWNED BY THE GOVERNMENT OF CANADA

Company
number

1	Canadian National Railway Company.....	\$ 18,000,000
2	The Canadian National Railways Securities Trust.....	378,518,135
		<u>\$ 396,518,135</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
3	Atlantic and St. Lawrence Railroad Com- pany.....	1	\$ 6,302,340	\$ 10,240
4	The Bay of Quinte Railway Company...	20	1,395,000	
5	The Bessemer and Barry's Bay Railway Company.....	20	125,000	
6	The Canadian Express Company.....	1	1,768,800	
7	Canadian National Electric Railways...	20	1,750,000	
8	Canadian National Express Company...	21	1,000,000	
9	*Canadian National Railways (France)— francs 30,000,000.....	1	1,893,574	
10	*Canadian National Realities, Limited...	20	40,000	
11	Canadian National Rolling Stock Lim- ited.....	1	50,000	
12	*Canadian National Steamship Com- pany, Limited.....	40	15,000	
13	Canadian National Telegraph Company	20	500,000	
14	*Canadian National Transportation, Lim- ited.....	1	500	
15	The Canadian Northern Alberta Rail- way Company.....	20	3,000,000	
16	Canadian Northern Manitoba Railway Company.....	20	250,000	
17	The Canadian Northern Ontario Rail- way Company.....	20	10,000,000	
18	Canadian Northern Pacific Railway Company.....	20	25,000,000	
19	The Canadian Northern Quebec Railway Company.....	20	9,550,000	3,849,200
20	The Canadian Northern Railway Com- pany.....	1	18,000,000	
21	The Canadian Northern Railway Ex- press Company, Limited.....	20	1,000,000	
22	Canadian Northern Steamships, Limited	20	2,000,000	
23	Canadian Northern System Terminals (Limited).....	20	2,000,000	
24	Canadian Northern Western Railway Company.....	20	2,000,000	
25	*The Centmont Corporation.....	28	176,400	
26	Central Counties Railway.....	1	500,000	12,000
27	The Central Ontario Railway.....	20	3,331,000	
28	Central Vermont Railway, Inc.....	1	10,000,000	
29	Central Vermont Terminal, Inc.....	28	5,000	
30	*Central Vermont Transit Corporation...	25	5,000	
31	Central Vermont Transportation Com- pany.....	25, 28	200,000	
32	The Champlain and St. Lawrence Rail- road Company.....	1	50,000	
33	*Consolidated Land Corporation.....	43	64,000	
34	Duluth, Rainy Lake & Winnipeg Railway Company.....	36	2,000,000	
35	Duluth, Winnipeg and Pacific Railroad Company.....	36	100,000	
36	Duluth, Winnipeg and Pacific Railway Company.....	20	3,100,000	
37	*Grand Trunk-Milwaukee Car Ferry Company.....	43	200,000	
38	The Grand Trunk Pacific Branch Lines Company.....	40	200,000	
39	The Grand Trunk Pacific Development Company, Limited.....	40	3,000,000	
40	The Grand Trunk Pacific Railway Com- pany.....	1	24,940,200	
41	The Grand Trunk Pacific Saskatchewan Railway Company.....	40	20,000	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC (Continued)

Company number	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
42	*Grand Trunk Pacific Terminal Elevator Company, (Limited).....	40	501,000	
43	{ Grand Trunk (Western Railroad Com- pany) Common..... Grand Trunk Western Railroad Com- pany (Preferred)..... }	1	20,000,000	
44	The Great North Western Telegraph Company of Canada (including \$331,500 held in scrow).....	13	373,625	6,825
45	The Halifax and South Western Railway Company.....	20	1,000,000	
46	*Industrial Land Company.....	43	1,000	
47	International Bridge Company.....	1	1,500,000	
48	The James Bay and Eastern Railway Company.....	20	125,000	
49	The Lake Superior Terminals Company Limited.....	20	500,000	
50	The Maganetawan River Railway Com- pany.....	1	30,000	
51	Manitoba Northern Railway Company.....	1	500,000	
52	The Marmora Railway and Mining Com- pany.....	20	128,600	
53	The Minnesota and Manitoba Railroad Company.....	20	400,000	
54	The Minnesota and Ontario Bridge Com- pany.....	20	100,000	
55	*Montreal and Southern Counties Railway Company.....	1	500,000	140,600
56	The Montreal and Vermont Junction Railway Company.....	28	197,300	
57	*Montreal Fruit & Produce Terminal Company, Limited.....	1	500	
Carried forward.....			\$ 186,388,839	\$ 4,018,865
Brought forward.....			\$ 186,388,839	\$ 4,018,865
58	*The Montreal Stock Yards Company....	1	350,000	
59	*The Montreal Warehousing Company....	1	236,000	10,440
60	Mount Royal Tunnel and Terminal Com- pany, Limited.....	20	5,000,000	
61	Muskegon Railway and Navigation Company.....	43	161,293	
62	*National Terminals of Canada, Limited	1	2,500	
63	National Transcontinental Railway Branch Lines Company.....	1	500	
64	*The Niagara, St. Catharines and Toronto Railway Company.....	20	925,000	
65	*The Niagara, St. Catharines and Toronto Navigation Company (Limited).....	64	100,000	
66	*The Oshawa Railway Company.....	1	40,000	
67	The Ottawa Terminals Railway Com- pany.....	1	250,000	
68	The Pembroke Southern Railway Com- pany.....	1	107,800	
69	Prince George, Limited.....	1	10,000	
70	Prince Rupert, Limited.....	1	10,000	
71	The Quebec and Lake St. John Railway Company.....	20	4,508,300	489,160
72	The Qu'Appelle, Long Lake and Saskat- chewan Railroad and Steamboat Company.....	20	201,000	
73	Rail & River Coal Company.....	1	2,000,000	
74	St. Boniface Western Land Company....	20	250,000	
75	The St. Charles and Huron River Rail- way Company.....	20	1,000	
76	St. Clair Tunnel Company.....	1	700,000	
77	*The Thousand Islands Railway Com- pany.....	1	60,000	
78	The United States and Canada Rail Road Company.....	1	219,400	425
79	Vermont and Province Line Railroad Company.....	1	200,000	
80	The Winnipeg Land Company Limited..	20	100,000	
			\$ 201,821,632	\$ 4,518,890

The income accounts of companies indicated (*) are included in the System income account as "Separately operated properties."

SESSIONAL COMMITTEE

DELIVERIES OF NEW EQUIPMENT DURING 1951

DIESEL-ELECTRIC LOCOMOTIVES
 20 1600 HP road locomotives
 34 1500 HP road locomotives
 10 1200 HP road switching locomotives
 3 1000 HP switchers
 34 800 HP switchers
 2 660 HP switchers

FREIGHT EQUIPMENT
 5000 50-ton box cars
 30 30-ton box cars for Newfoundland
 100 70-ton covered hopper cars

PASSENGER EQUIPMENT
 10 express refrigerator cars for Newfoundland
 50 baggage cars

WORK EQUIPMENT
 30 30 cu. yd. 50-ton air dump cars
 4 steel snow plows
 1 30-ton diesel-electric locomotive crane
 1 locomotive crane and pile driver
 1 8-wheel diesel dynamatic wrecking crane for Newfoundland
 14 miscellaneous units built from salvage in railway shops

INVENTORY OF RAILWAY EQUIPMENT

	On hand Jan. 1, 1951	Additions (See note)	Retire- ments	Conversions Added	Retired	On hand Dec. 31, 1951	Orders outstanding Dec. 31, 1951
LOCOMOTIVES							
Steam—Road.....	1,927	1	30	3		1,901	
“ —Switching.....	546		4		3	539	
Electric.....	27	6				33	
Diesel-electric—Road...	56	64				120	29
“ “ —Switching.....	121	39				160	33
Total.....	2,677	110	34	3	3	2,753	62
FREIGHT EQUIPMENT							
Box cars.....	75,149	5,053	881		393	78,928	3,670
Flat cars.....	5,883		71		53	5,759	900
Stock cars.....	3,132	3	32			3,103	10
Coal cars.....	16,117	160	739		49	15,489	4,555
Tank cars.....	231				7	224	
Refrigerator cars.....	4,001		44		5	3,952	500
Caboose cars.....	1,731	3	27	78		1,785	
Other cars in freight service.....	37		31			6	
Total.....	106,281	5,219	1,825	78	507	109,246	9,635
PASSENGER EQUIPMENT							
Coach cars.....	1,132		15		7	1,110	
Combination cars.....	264		12	14		266	5
Dining cars.....	93		1			92	
Colonist cars.....	158		1		11	146	
Parlor cars.....	60					60	
Cafe cars.....	26				6	20	
Sleeping cars.....	350				8	372	6
Tourist cars.....	43				1	42	
Baggage and express cars.	1,166	60	16	56	1	1,265	92
Postal cars.....	55		2			53	3
Unit cars.....	29	9	2			36	18
Other cars in passenger service.....	53	30	4			79	
Total.....	3,459	99	53	70	34	3,541	124
WORK EQUIPMENT							
Cars in work service.....	7,947	58	313	393		8,085	132
FLOATING EQUIPMENT							
Car ferries.....	8					8	
Barges.....	6					6	
Steamers.....	14					14	
Tugs.....	5					5	
Work.....	3					3	

Note: Includes Quebec Railway, Light & Power Company equipment acquired November 1, 1951, as follows:—

Locomotives—1 steam and 6 electric
 Freight equipment—23 box, 60 coal and
 6 other units

Passenger equipment—9 unit cars and 30 other
 units
 Work equipment—7 units

STATISTICS OF RAIL-LINE OPERATIONS——

	1951	1950
TRAIN-MILES		
Freight service.....	48,353,158	45,458,577
Passenger service.....	24,412,847	22,387,001
	72,766,005	67,845,578
Work service.....	2,390,845	1,660,668
Total train-miles.....	75,156,850	69,506,246
LOCOMOTIVE-MILES		
Freight service.....	51,433,200	48,499,499
Passenger service.....	24,543,619	22,451,088
Train switching—Freight.....	4,069,286	3,913,276
—Passenger.....	156,472	148,239
Yard Switching—Freight.....	17,856,977	16,696,883
—Passenger.....	1,787,151	1,678,613
	99,851,705	93,387,598
Work service.....	2,515,865	2,224,277
Total locomotive-miles.....	102,367,570	95,611,875
CAR-MILES		
Freight Service:		
Loaded freight cars.....	1,313,474,003	1,225,840,184
Empty freight cars.....	562,081,865	530,990,013
Passenger coach and combination cars.....	6,980,076	6,651,117
Sleeping parlor and observation cars.....	424,251	410,567
Dining cars.....	27,282	34,650
Other cars.....	8,071,015	8,026,236
Caboose cars.....	47,548,666	44,790,469
	1,938,607,158	1,816,743,236
Passenger Service:		
Loaded freight cars.....	627,687	687,577
Empty freight cars.....	89,545	82,782
Passenger coach and combination cars.....	63,831,093	56,183,679
Sleeping, parlor and observation cars.....	53,813,300	50,546,895
Dining cars.....	8,703,355	8,128,985
Other cars.....	81,970,608	76,286,092
Motor unit cars.....	660,448	596,160
Caboose cars.....	990,922	753,218
	210,686,958	193,265,388
Total car-miles freight and passenger services.....	2,149,294,116	2,010,008,624
Work service.....	3,824,341	3,627,430
Total car-miles.....	2,153,118,457	2,013,636,054
AVERAGE MILEAGE OF ROAD OPERATED.....	24,176.07	24,188.40
FREIGHT TRAFFIC		
Tons carried—Revenue freight.....	89,618,436	81,364,658
Ton-miles—Revenue freight.....	36,434,821,058	31,988,269,548
Freight revenue.....	\$498,800,344	\$445,780,004
Revenue per ton.....	\$5.56582	\$5.47879
Revenue per ton-mile.....	\$0.01369	\$0.01394
Average haul.....	406.55	393.15
Ton-miles—Revenue freight per mile of road.....	1,501,578	1,317,500
Ton-miles—All freight per mile of road.....	1,624,019	1,451,268
Gross ton-miles of cars, contents and cabooses.....	83,988,584,508	77,219,463,322
Net ton-miles of freight (revenue and non-revenue).....	39,262,386,491	35,103,861,182
Train-hours in freight road service.....	3,015,621	2,805,604
PASSENGER TRAFFIC		
Passengers carried.....	17,322,723	16,819,857
Passenger-miles.....	1,611,153,281	1,407,724,037
Passenger revenue.....	\$47,475,661	\$39,889,206
Revenue per passenger.....	\$2.74066	\$2.37155
Average passenger journey.....	93.01	83.69
Revenue per passenger mile.....	\$0.02947	\$0.02834
Passenger-miles per mile of road.....	66,642	58,198
NET RAILWAY OPERATING INCOME		
Gross revenue per mile of road.....	\$25,845.15	\$22,896.58
Gross railway operating charges per mile of road.....	\$24,786.36	\$21,224.52
Net railway operating income per mile of road.....	\$1,058.79	\$1,672.06

REVENUE TONNAGE BY COMMODITIES

	Year 1951	Year 1950	Increase or decrease	
	Tons	Tons	Tons	Percent
AGRICULTURAL PRODUCTS				
Wheat.....	7,389,538	4,939,977	2,449,561	49.59
Corn.....	508,563	474,822	33,741	7.11
Oats.....	1,407,428	1,116,847	290,581	26.02
Barley.....	1,607,644	1,000,342	607,302	60.71
Rye.....	121,155	122,299	1,144	.94
Flaxseed.....	85,763	45,771	39,992	87.37
Other grain (including dried peas, beans, soya beans).....	219,271	188,804	30,467	16.14
Flour.....	975,448	923,044	52,404	5.68
Other mill products.....	1,366,531	1,663,433	296,902	17.85
Hay and straw.....	103,086	138,770	35,684	25.71
Cotton.....	87,533	93,001	5,468	5.88
Apples (fresh).....	76,446	86,892	10,446	12.02
Other fruit (fresh).....	326,872	279,946	46,926	16.76
Potatoes.....	346,474	398,191	51,717	12.99
Other fresh vegetables.....	264,430	242,692	21,738	8.96
Other agricultural products.....	795,481	785,983	9,498	1.21
Total.....	15,681,663	12,500,814	3,180,849	25.45
ANIMAL PRODUCTS				
Horses.....	41,788	32,775	9,013	27.50
Cattle and calves.....	216,712	275,195	58,483	21.25
Sheep.....	8,198	8,783	585	6.66
Hogs.....	122,964	122,477	487	.40
Poultry (live).....	133	278	145	62.16
Dressed meats or dressed poultry (fresh or frozen).....	215,442	210,284	5,158	2.45
Dressed meats (cured or salted).....	26,616	35,871	9,255	25.80
Other packing house products (edible)....	92,655	70,147	22,508	32.09
Eggs.....	8,268	12,139	3,871	31.89
Butter.....	38,743	36,578	2,165	5.92
Cheese.....	24,841	25,772	931	3.61
Wool.....	29,460	33,593	4,133	12.30
Hides and leather.....	63,410	74,008	10,598	14.32
Other animal products (non-edible).....	97,866	97,668	198	.20
Total.....	987,096	1,035,568	48,472	4.68
MINE PRODUCTS				
Anthracite coal.....	2,377,551	2,543,195	165,644	6.51
Bituminous coal.....	10,728,805	11,339,124	610,319	5.58
Sub-bituminous coal.....	1,187,981	1,340,030	152,049	11.35
Lignite coal.....	738,923	723,653	15,270	2.11
Coke.....	969,031	926,845	42,186	4.55
Iron ores and concentrates.....	1,562,925	1,374,878	188,047	13.68
Copper ore and concentrates.....	213,218	236,386	23,168	9.80
Other ores and concentrates.....	2,991,499	2,598,251	393,248	15.14
Base bullion, matte, pig and ingot (non- ferrous metals).....	616,871	602,087	14,784	2.46
Sand and gravel.....	2,299,310	2,185,148	114,162	5.22
Stone (crushed, ground, broken).....	2,906,225	2,443,199	463,026	18.95
Slate, dimension or block stone.....	74,934	89,378	14,444	16.16
Crude petroleum.....	248,812	1,126,383	877,571	77.91
Asphalt (natural, by-product petroleum)...	404,825	384,877	19,948	5.18
Salt.....	553,375	457,833	95,542	20.87
Other mine products (not fully processed)...	2,514,944	2,210,817	304,127	13.76
Total.....	30,389,229	30,582,084	192,855	.63
FOREST PRODUCTS				
Logs, posts, poles, piling.....	945,753	601,668	344,085	57.19
Cordwood and other firewood.....	211,704	257,559	45,855	17.80
Ties.....	63,252	47,009	16,243	34.55
Pulpwood.....	7,321,157	4,232,336	3,088,821	72.98
Lumber, timber, box, crate and cooperage material.....	4,766,706	4,956,332	189,626	3.83
Plywood.....	115,469	95,003	20,466	21.54
Other forest products.....	266,553	317,578	51,025	16.07
Total.....	13,690,594	10,507,485	3,183,109	30.29
Carried forward.....	60,748,582	54,625,951	6,122,631	

REVENUE TONNAGE BY COMMODITIES (Continued)

	Year 1951	Year 1950	Increase or decrease	
	Tons	Tons	Tons	Per cent
Brought forward.....	60,748,582	54,625,951	6,122,631	
MANUFACTURES AND MISCELLANEOUS				
Gasoline.....	2,042,123	1,992,205	49,918	2.51
Petroleum oils and petroleum products (except asphalt and gasoline).....	1,956,627	1,824,254	132,373	7.26
Sugar.....	298,870	306,022	7,152	2.34
Iron, pig and bloom.....	604,970	599,476	5,494	.92
Rails and fastenings.....	68,328	56,724	11,604	20.46
Iron and steel (bar, sheet, structural, pipe)	2,049,387	1,621,418	427,969	26.39
Castings, machinery and boilers.....	337,065	304,410	32,655	10.73
Cement.....	993,759	933,373	60,386	6.47
Brick and artificial stone.....	414,683	341,498	73,185	21.43
Lime and plaster.....	581,876	562,267	19,609	3.49
Sewer pipe and drain tile.....	63,650	58,027	5,623	9.69
Agricultural implements and vehicles other than autos.....	367,707	349,326	18,381	5.26
Automobiles, auto trucks and auto parts..	2,135,524	2,461,632	326,108	13.25
Household goods and settlers effects.....	15,080	15,497	417	2.69
Furniture.....	69,450	63,571	5,879	9.25
Beverages.....	365,507	305,954	59,553	19.46
Fertilizers, all kinds.....	1,017,687	995,762	21,925	2.20
Newsprint paper.....	2,195,111	2,082,046	113,065	5.43
Other paper.....	428,548	370,596	57,952	15.64
Paper board, pulpboard and wallboard (paper).....	705,434	637,100	68,334	10.73
Woodpulp.....	1,642,026	1,351,377	290,649	21.51
Fish (fresh, frozen, cured, etc.).....	83,241	95,407	12,166	12.75
Canned goods (all canned food products).....	630,081	605,860	24,221	4.00
Other manufactures and miscellaneous....	7,969,875	6,959,614	1,010,261	14.52
Merchandise (all L.C.L. freight).....	1,833,245	1,845,291	12,046	.65
Total.....	28,869,854	26,738,707	2,131,147	7.97
Grand total.....	89,618,436	81,364,658	8,253,778	10.14

OPERATED MILEAGE, 31st DECEMBER, 1951

OPERATED ROAD MILEAGE	Owned	Leased	Trackage	Total
Atlantic Region.....	3,790.62	6.41	82.95	3,879.98
Central Region.....	7,146.93	347.91	55.64	7,550.48
Western Region.....	11,341.42	34.84	92.54	11,468.80
Grand Trunk Western Lines.....	883.10	9.50	59.75	952.35
Central Vermont Lines.....	363.10	.....	58.73	421.83
Total first main track.....	23,525.17	398.66	349.61	24,273.44
Lines in Canada.....	22,063.54	216.79	226.74	22,507.07
Lines in United States.....	1,461.63	181.87	122.87	1,766.37
OPERATED MILEAGE ALL TRACKS				
First main track.....	23,525.17	398.66	349.61	24,273.44
Second main track.....	1,229.63	9.31	72.16	1,311.10
Third main track.....	30.02	.....	3.49	33.51
Fourth and other main tracks.....	10.78	.....	5.09	15.87
Spurs, sidings and yard tracks.....	6,171.05	127.71	1,300.02	7,598.78
Total all tracks.....	30,966.65	535.68	1,730.37	33,232.70

And then the rest of the report consists of the balance sheet and statistical tables which I hope will give the committee a fairly comprehensible grasp of activities.

The CHAIRMAN: Thank you very much, Mr. Gordon. Now, if the members will refer back to page 6 we will take up operating revenues and operating expenses.

Mr. MACDONNELL: Mr. Chairman, there is one general question I would like to ask at this time.

The CHAIRMAN: Yes.

Mr. MACDONNELL: Perhaps it should be addressed to the minister rather than to Mr. Gordon. I notice that with respect to the board of directors, the number is very small; am I correct, only five or six altogether?

Mr. GORDON: Yes.

Hon. Mr. CHEVRIER: Yes, that is right.

Mr. MACDONNELL: Now, I would like to ask you this question: is it a matter of policy to keep the board so small? I am sure that Mr. Gordon would agree with me in general that it is a good thing for an executive head to have as much in the way of fresh ideas from outside as he can get. I don't mean the directors should interfere with management, but I merely mean that you get fresh views if you have a fairly wide range of people on the board, I would have thought; and I would like to know whether that conclusion was arrived at as a matter of policy. It seems to me that you deprive yourself of the advantage of outside views.

Hon. Mr. CHEVRIER: In the first place, these members of the board of directors are permanent, they are not employed in an advisory capacity. They are appointed by the Governor in Council to administer the affairs of the railway; and while there have been representations from time to time to increase the number on the board, the government has not seen fit to change it.

Mr. MACDONNELL: By the way, Mr. Minister, how often does the board meet?

Hon. Mr. CHEVRIER: Once a month. Every time a vacancy is about to arise the question comes up as to whether we should not change the geographical location from which the member of the board comes; and the question also arises as to why there should not be more representatives from B.C. or additional representation from Newfoundland. But, until we amend the Act under which the board is appointed the position remains as it is now because the Act provides for a seven man board of directors.

Mr. MACDONNELL: I know that, but may I point out to you, Mr. Minister, that there is such a thing as amending an Act. I would imagine the minister could change his views as to whether it would be wiser to have a larger, a more representative board.

Hon. Mr. CHEVRIER: I can tell you, Mr. Macdonnell, I have no pronounced views on it nor, I am sure, do we have as a government. When the matter has been up for discussion we have come to the conclusion that it would not be desirable at the time the discussion took place to amend the Act, and we saw no reason why we should change our views then.

Mr. MACDONNELL: Do you not agree with the view that a board more comparable, let us say to that of the T.C.A. would be preferable? This board represents an operating institution which is one of the largest in Canada, one which has problems of extensive technical difficulty. That is why I raised the question as to whether a wider representation on the board might not be desirable, one through which ideas could be projected from the board through

to the management; not to interfere with what management is doing, but rather to offer assistance by way of comment, and sometimes of criticism; but, at any rate, it is an opportunity of having fresher minds.

Hon. Mr. CHEVRIER: I believe that I can answer your question by saying that I believe, eventually, there will be some provision made for a greater number of directors on the board.

Mr. MACDONNELL: "Eventually" is such a long word.

Mr. POULIOT: What would be the number that you would suggest?

Mr. MACDONNELL: Well, Mr. Pouliot, I did not have it in mind to suggest any particular number, I was just dealing with the general idea of the possibility of a greater representation on the board of directors.

Mr. POULIOT: You are going on the assumption that the more numbers you have on the board the better will be the result. Speaking personally, I am for quality and not for quantity. The purpose of the board of directors is to advise the management, and, as I see it, the more advisers we have the more difficulties we may expect.

Mr. MACDONNELL: Not with a man like Mr. Gordon; he keeps the directors in their place.

Mr. POULIOT: But Mr. Gordon is not the only man. We must have a board of directors to give direction to the board of management. The board of directors cannot have any say in the operation of the road so what difference does it make anyway.

Mr. MACDONNELL: Let me put it this way, Mr. Gordon; again, I don't want to appear to be interfering with the management; that is to say, I think the president and the executive are responsible. On the other hand, there are a great many conclusions which Mr. Gordon has to make which are very far-reaching and which I presume he brings to the attention of the board from time to time asking for their advice. And when I say I do not want the board of directors to interfere with management, I do not mean that they should not make decisions. They could make very important decisions, but they are decisions to be carried out by the president.

Mr. GILLIS: Has it not been your experience, Mr. Macdonnell, that the more men you get around a table, the longer it takes to get a decision?

Mr. MACDONNELL: I think there is something in what you say.

Mr. GILLIS: It generally boils down to one fellow making a decision and the others agreeing with him.

Mr. GORDON: It is a fact that in the day to day operation it is necessary that the head of any organization should be free to exercise his own judgment in regard to the immediate situation. But on broad questions of policy, that is where the board of directors functions. There are questions of policy and questions of broad interest to the operation of the property as to which the board of directors certainly should express views. Speaking for myself, I make it a very definite point to bring before the board of directors any questions of that type. Therefore I do not want to let your comment pass, that the board of directors do not do anything, because they certainly do. They make a very valuable contribution in regard to the decisions taken in respect to general policy.

Mr. GILLIS: I did not mean to say that they do not do anything. I was simply drawing a conclusion from what Mr. Macdonnell had said. He wanted to have a big board, but with no right to make policies or to direct the management.

Mr. MACDONNELL: I think that Mr. Gordon has stated it very accurately. I did not intend to imply that they were just going to be a lot of rubber stamps. I think the board of directors can be useful in questions of policy.

Mr. POULIOT: Rubber stamps or statues?

Mr. MOTT: I think, Mr. Chairman, there should be better geographical representation on the board of directors; with the great increase in development in British Columbia, I do not think you have a member of the board of directors who is from that province. I understood your wish was to have the directors closer in order to attend meetings of the board. Have we a representative from the west now, and if so who is he?

Hon. Mr. CHEVRIER: Mr. Parker is a resident of Winnipeg.

Mr. MOTT: That is the very answer I got the year before last, namely, that Winnipeg is as far west as the directors go. But I think, having regard to the great increase of industry in both British Columbia and Alberta, and in view of the fact that the Canadian National Railways are doing so much, that there should be a representative on the board representing those two provinces.

Hon. Mr. CHEVRIER: I think you made known those representations to me and to the government on more than one occasion; so I am apprised of them, Mr. Mott.

Mr. POULIOT: I am very sorry that I cannot agree with your idea of not tampering with the management and I will tell you why. If you have a car without a brake, where will you go? The idea behind having a board of directors is that of bringing to the attention of the management the ideas of the men on the street. It can be done with these six people, because these men are in all walks of life and they meet people, and therefore they know the feeling of people; so that when the company comes forward with a proposal of any kind, they can give their opinions, which are then weighed by the company. The company can then decide whether or not it can be done.

Mr. MACDONNELL: You seem to be agreeing with me, Mr. Pouliot, if I understand you correctly.

Mr. POULIOT: We nearly always agree; but in this case, while I do not know all the gentlemen personally, those I do know I think would be very useful because they belong to other boards and they meet business men and they can give to the management the opinions of the average business man or the average citizen.

Mr. MACDONNELL: If I gave you the idea in what I said that I had the slightest degree of criticism in mind, then I have slipped badly. I said that I thought it was possible to have a little more of a good thing. You said they would be able to bring to the board a cross-section of public opinion and I agree. But I think that 20 good men could do it better than 6 good men.

The CHAIRMAN: This matter has now been brought to the attention of the committee. The members will remember it, and when the time comes for us to draft our report, we may have something finalized. Shall we now turn to page 6?

Mr. GILLIS: We are on page 6, are we not?

The CHAIRMAN: Yes, on general questions.

Mr. GILLIS: I would like to ask Mr. Gordon what progress has been made in regard to the straightening out of the capital structure in line with the recommendations of the Royal Commission of Transportation. You made reference in your report to the fact that the royal commission had recommended some measure of relief. I notice according to this report that you are still about where you were. What measure of relief did they recommend, and when do you anticipate that that measure of relief may be forthcoming?

Mr. GORDON: I can only say that the railway has made its submission to the royal commission, and therefore the next step is a matter for the government, and I think the minister is the one to comment on it.

Mr. GILLIS: What measures of relief did they recommend? I have read the report of the royal commission and I certainly remember the recommendations made by Mr. Gordon for a complete revision of the capital structure and for some relief from that interest debt. But I did not see anything in the report of the royal commission that I would interpret as being a measure of relief.

Mr. GORDON: Oh yes, there is a definite recommendation.

Hon. Mr. CHEVRIER: If my friend will read the chapter in the report dealing with the capital structure of the Canadian National Railways, chapter 6, at page 180, he will see there the recommendations made by the Royal Commission on Transportation. They are pretty lengthy and fairly complicated. I do not think you will expect me to go into them here. But with respect to your question of what progress has been made, the President of the Canadian National Railways has stated in his report that he hopes that something will come out of these recommendations in 1952, and all I can say is that the government has given, and is still giving careful consideration to the recommendations of the royal commission. Whether or not it will be possible to incorporate any or all of them, I am not in a position to say at this time. All I can say is that we are giving them careful consideration and I hope that before the session is over it will be possible to bring in a bill that will meet, in part at least, if not entirely, the recommendations that the Canadian National Railways have been asking for over a period of years, for relief from their capital structure.

Mr. GILLIS: I hope that the government has something definite in mind. I read the report of the royal commission as well as its recommendations, and as you say I think they are ambiguous, complicated, and mixed up; and in trying to sort them out, I could not see very much relief in it. But I will take the word of the minister for it.

Mr. MACDONNELL: He did not say that.

Hon. Mr. CHEVRIER: I would like to follow Mr. Macdonnell's point and ask my friend not to put words in my mouth which I have not said. I did not say that the recommendations were complicated and ambiguous; but I did say they were difficult matters.

Mr. GILLIS: Oh, that is right; I added that.

The CHAIRMAN: Knowing Mr. Gillis' deep interest in that problem I allowed him to jump, as you noticed, to page 19 of the report.

Mr. GILLIS: No. It is right here in this review.

The CHAIRMAN: You will find the details are dealt with on page 19, under the heading of "Royal Commission on Transportation", and "Recapitalization". Are there any further questions, or shall I declare the item carried?

Mr. POULIOT: Mr. Chairman, if you will kindly permit me; the recommendations of the royal commission may be ambiguous, but the legislation sponsored by the Minister of Transport is always well drafted, and he is able to understand it.

Hon. Mr. CHEVRIER: Thank you, Mr. Pouliot!

The CHAIRMAN: Are there any further questions then on "Royal Commission on Transportation", and "Recapitalization"? If not, I shall declare the items carried.

Mr. FULTON: Wait a moment, Mr. Chairman. Could we not wait until we come to them?

The CHAIRMAN: Well, Mr. Gillis did not want to wait, and knowing his deep interest, I let him go on.

Mr. GILLIS: I was sorry to see that the railways were still carrying that \$46 million of interest charge.

Hon. Mr. CHEVRIER: \$46 million?

Mr. GORDON: Yes. That is the total of interest.

Mr. GILLIS: Yes.

Mr. MACDONNELL: Did Mr. Gordon deal with the question of "Operating Ratios", or would this be the correct place for him to do so? I wish he would say a word or two about it and perhaps give us some comparative figures, if this is the convenient place.

The CHAIRMAN: I think perhaps this might be a good place to do it.

Mr. GORDON: Page 29; is that the figure you have in mind, Mr. Macdonnell?

Mr. MACDONNELL: I mean actual.

Mr. GORDON: Comparative expenses?

Mr. MACDONNELL: How much of the dollar it costs you to earn a dollar?

Mr. GORDON: There is a comparison of our total revenue, 92.85.

Mr. MACDONNELL: Would this be a convenient place to give us the comparative figures of other north American railways?

Mr. GORDON: In a general way I would say that our percentage of operating in terms of expenses is perhaps somewhat higher than the class one railways of the United States.

Mr. MACDONNELL: Do you not think it should be perhaps the most directly comparative figures we could get?

Mr. GORDON: There are a number of qualifications, to be sure; that is, there is nothing that you can compare with the Canadian National Railways as such. If you take the United States Class one railways, they are, after all, railways operating in a limited territory; there is no transcontinental railway as such; there is nothing comparable in the way of our thin traffic lines which have been built in the national interest, and so on. Therefore, when you look at these things, you must come out with the conclusion, in so far as our operating ratios are concerned, that inevitably they are bound to be higher.

Mr. MACDONNELL: I am sure you have made clear the considerations to be borne in mind, and I hope that we will have sense enough to accept them as you have described them; but does this not give you a starting point?

Mr. GORDON: I agree.

Mr. MACDONNELL: What I am seeking is a comparison. Perhaps we can leave it now and you will be able to say something about it later.

Mr. GORDON: Yes. I shall see what I can set up on it later on.

Mr. McLURE: Mr. Chairman, where can we find a breakdown of the operating revenues of the different regions of the Canadian National Railways?

Mr. GORDON: We do not break down our accounts in the form you are thinking of, Mr. McLure, region by region.

Mr. McLURE: Yes?

Mr. GORDON: Our difficulty there is that there is quite an item of expenses which we call common expenses and which has to be spread over the whole system as part of the railway debt; so it is not possible to take out specific regions in a form which would allow for proper comparisons of the kind you have in mind.

We can, for instance, take specific comparisons of given areas for our own purposes, when we are trying to see whether or not their costs are higher than in other places, but that is a technical operation which we perform for departmental reasons. But you cannot get district comparisons of the type you have in mind because there is a common expense factor which has to be spread across the whole system.

Mr. POULIOT: If a car is loaded at Halifax for Vancouver, what region gets the credit for the freight? Is it Halifax—

Mr. GORDON: The originating point.

Mr. COOPER: It would have to be divided by regions.

Mr. GORDON: You are thinking of what goes into the revenue account?

Mr. POULIOT: No, I want to know what region is credited.

Mr. GORDON: Each region gets its share of the haul. We start off with the originating point and then we spread it across where the haul takes place.

Hon. Mr. CHEVRIER: The Atlantic region would get the share up to Diamond Junction, would it?

Mr. COOPER: It is divided into 50 mile blocks—that is the basis for division, inter-regionally.

Mr. MACDONNELL: Are your operating costs dealt with in the same way?

Mr. GORDON: Costs are direct.

Mr. MACDONNELL: I just wondered if it corresponded to the earnings pattern?

Mr. GORDON: Well, the cost factor does not arise. Costs are direct in the place where they arise. They do not have to be spread over other regions; they are applicable to the particular points.

Mr. POULIOT: The cost in each region is separate?

Mr. GORDON: Yes.

Mr. POULIOT: Whether freight charges are paid in Halifax or in Vancouver each would have a share?

Mr. GORDON: Generally speaking we would give each region its share of the revenue that arises out of the operation in that particular region.

The CHAIRMAN: Is that share based on the rate structure or on the mileage haul?

Mr. GORDON: Its basis, as Mr. Cooper points out, is a railway division of 50 mile blocks.

The CHAIRMAN: What do you do where there is a long haul with a low arbitrary?

Mr. GORDON: The same would apply.

The CHAIRMAN: So it is really based on a proper allocation of the freight rate?

Mr. GORDON: That is what we try to do, yes.

Mr. McLURE: I have another question in connection with that. In the case of the Prince Edward Island regions and a long freight haul originating there, what proportion would be credited to the car ferry? Or, is it just taken in as a portion of the road?

Mr. GRACEY: It is a ton mile proportion.

Mr. GORDON: Mr. Gracey might answer the question. He is our comptroller and he will explain it.

Mr. GRACEY: Would you repeat the question?

Mr. McLURE: My question is simply this. If you were apportioning or crediting the long haul freight would the connecting link from our province to the mainland, meaning the car ferry system, be credited with their proportion of the long haul rate right straight through as an operating revenue? For instance, if there were thirty carloads—

Mr. GORDON: Do you mean to ask whether we include the car ferry as part of the Prince Edward Island operation?

Mr. McLURE: Or by itself?

Mr. GRACEY: By itself, yes.

Mr. GORDON: We do not maintain a record of revenue on the Prince Edward Island division as distinct from the Atlantic region as it is an integral part.

Mr. McLURE: The reason I bring the question up is that from time to time we see in Public Accounts the fact that there is a deficit on that railway. As I have always said, the word "deficit" should never occur there because it is a service. However, the bookkeepers still call it a deficit. I was wondering whether from time to time anything is credited to it to overcome that deficit?

Mr. GORDON: I should point out that the cost or the deficit, or whatever you want to call it, of the ferry is not included in the Canadian National accounts.

Mr. McLURE: No, I know it is not.

Mr. GORDON: It is not in this report at all.

Mr. McLURE: But it appears as a deficit from the C.N.R. to the government and a vote is given each year. I always say that it is a service which must be rendered and it is not a deficit. When we apply for improvement they always turn around and say: Well, here is a deficit.

The CHAIRMAN: I take it, Mr. McLure, that what you want to be assured of is that in arriving at this deficit, proper credit is given for all the earnings of the ferry?

Mr. McLURE: There would not be a deficit as it would be based on the service which the government has to render.

The CHAIRMAN: Are there any further questions on operating revenue?

Mr. MACDONNELL: I have one general question which perhaps might be left but I would like to hear Mr. Gordon say something as to it if it can be done conveniently. I refer to the effect on the C.N.R. earnings of the tremendous increase in trade with the United States. Perhaps that is too vague but I notice an increase of 73 per cent in pulpwood traffic, and I mention that only as an instance?

Mr. GORDON: Yes.

Mr. MACDONNELL: Would there be anything in your accounts which would enable you to say, even as a rough venture, how much of the increase in your earnings came from the tremendous increase of trade with the United States. For instance, would your Chicago, Portland and other American connections show great change?

Mr. GORDON: Our United States lines are kept separately from our general accounts. We could tell you the operations, for instance, of the Grand Trunk Western.

Mr. MACDONNELL: When you say they are kept separately do you mean they are not included here?

Mr. GORDON: No, but we can give you figures for the United States lines. In other words, we can tell you the results for the Grand Trunk Western or the Central Vermont railways.

Mr. MACDONNELL: Are those accounts not carried into this?

Mr. GORDON: They are included in this over-all, and I think we can give you something later to indicate the improvement or otherwise of traffic carried in the United States in 1951. However, I do not think I can answer your question completely because, I take it, you would like to know the amount of improvement in revenue that comes from an over-all increase in export traffic to the United States. We will have to look at that and see what we can do.

The CHAIRMAN: I wonder, Mr. Gordon, if a breakdown of that \$41 million figure of increased volume of traffic would not give Mr. Macdonnell his answer?

Mr. GORDON: If you turn to page 45 you will see our revenue tonnage there by commodities. Pretty generally you will know what it is. Take wheat, for instance, you will see an extraordinary tonnage of wheat in 1951 as compared with 1950. You know that as a general thing wheat does not go to the United States.

Mr. MACDONNELL: How much of that would go through Portland?

Mr. GORDON: I forget, but relatively not very much. You will see that the table of breakdown of revenue tonnage bears out what I have stated in a general way in the report—that we have handled a very large amount of low rated traffic so our earnings per ton are lower than they were in 1950.

Mr. MACDONNELL: When you are giving figures as to the comparative operating statement, I take it you might be able to indicate something of the effect that your low grade traffic has—as compared with some other forms.

Mr. GORDON: Yes, we can do that.

The CHAIRMAN: Are there any further questions?

Mr. GILLIS: Would I be in order to ask Mr. Gordon about the \$381,654,000 set out as the total wage bill?

Mr. GORDON: Yes.

Mr. GILLIS: You said that included salaries and administrative costs.

Mr. GORDON: You would like to know the labour cost by itself?

Mr. GILLIS: Yes, the percentage of that figure—

Mr. GORDON: Charged to operating? I do not know if that quite answers your question. We have a breakdown here. This total I have before me here is a breakdown showing labour costs as distinct from our material costs in our operating expenses. Labour cost in 1951 was \$350,713,000.

Mr. GILLIS: That includes administrative expenses, salaries?

Mr. GORDON: No, labour only. I do not want to mislead you and I think I am.

Mr. GILLIS: I think you are.

Mr. GORDON: Yes, and I do not intend to. At least I think that what you want to know is what might be called manual labour as distinct from other forms of administration, is that it?

Mr. GILLIS: Yes.

Mr. GORDON: Well, that figure I gave you is certainly not that.

Mr. GILLIS: No, I did not think it was.

Mr. GORDON: We could get that for you.

Mr. GILLIS: I would like to get it.

Mr. GORDON: There is a problem as to where you break down the total. For example, a section man is labour; but a road master, is he "labour" or "supervision"?

Mr. GILLIS: I would say he is labour.

Mr. GORDON: Assistant superintendents, telegraph operators?

Mr. GILLIS: I would consider that all labour.

Mr. GORDON: The only way I can get you the figure is to know what you are trying to define as labour.

Mr. GILLIS: When you use the words wage bill, which you did, my interpretation of wages is wages that are paid to anyone who is in an operating position on the railroad, who has to do with the moving of a train. What I would like to get is the percentage of administrative cost. Now, my interpretation of an administrator is yourself, the staff you have here and the staff you have in the offices across the country.

The CHAIRMAN: Would labour include a station agent?

Mr. GILLIS: Yes.

Mr. GORDON: I would be glad to show you a table here which would perhaps meet your purpose, but again it is a question of where is the breaking point. Is a foreman labour?

Mr. GILLIS: Yes, I would say he is labour.

Mr. GORDON: Yes, but some people would not; some people would say a foreman is a supervisor.

Mr. GILLIS: I would not say that. I would say that anyone who has to do with the movement of trains is labour.

Mr. GORDON: I can show you, then, that on this breakdown table I have before me there is a total cost of salaries and wages amounting to \$59,833,000—a breakdown under what is called “general”. Now, under that heading of “general” we include executives, general officers, superintendents, architects, draughtsmen, engineers, chief clerks, other clerical forces, stenographers, machine operators, and so on and so on. Now, I do not like to make a distinction and say that a clerk is not a labourer. He works just the same as a fellow with a pick axe, but what you would like to know is the wage bill of the people using material, using tools?

Mr. GILLIS: Yes, that is right, operating trains, conductors and switchmen.

Mr. GORDON: And then I have another heading here, Maintenance of Way.

Mr. GILLIS: That is labour.

Mr. GORDON: That amounts to \$60,700,000. That includes such people as road masters, foremen, supervisors, inspectors and assistants, bridge gang foremen, section men, and so forth. That is a physical job.

Mr. GILLIS: Yes, sir.

Mr. GORDON: There is \$60,700,000 in that. Under the general heading of Maintenance of Equipment and Stores there is \$101,000,000. That, again, includes different types and classifications of inspectors and stationary engineers, firemen, coach cleaners and people of that type, but, again, that is under the heading of Maintenance of Equipment and Stores.

Then there is a heading here called Transportation, in which we break down \$42,000,000. That includes train dispatchers, stationmasters, agents, and it would include miscellaneous people like tower men who operate the gates on level crossings.

Mr. FULTON: Would it include the train crews?

Mr. GORDON: No. The train crews come in the next item. We have an item here of \$84,000,000 which covers train and engine men, conductors, engineers, brakemen or firemen, helpers. That is \$84,000,000. And there is \$4,500,000 for yard masters, switch tenders, hostlers, etc. I have other items here, the express department, \$15,000,000; the communications department, \$13,700,000.

And that total amounts to \$385,000,000.

Mr. GILLIS: Well, now, what is the figure for that classification you have listed there as "general"?

Mr. GORDON: The general figure is \$59,833,000, and I will just read you exactly what goes into that. It covers executives, general officers, general superintendents, and other district officers on the system. It includes divisional superintendents and other divisional officers of the system. It includes assistant architects, draughtsmen, resident, assistant, and junior engineers, chief clerks, and all other clerical forces, stenographers, machine and phone operators on the system, and then there is a small item for miscellaneous employees.

Mr. GILLIS: Well, that answers my question to my complete satisfaction. I wanted to get that "general" group separate from the others.

Mr. GORDON: It has just been called to my attention that of the \$59,800,000 that I mentioned, \$32,800,000 of that figure is covered by clerks and other clerical forces; it covers the general body of clerical assistants out of the executive.

Mr. GILLIS: That is perfectly satisfactory.

The CHAIRMAN: While on this point, Mr. Gordon—you have given the committee the cost of railway material index for 1951, related to 1936-38 base, at 220.5. That is on page 9. Could you give us a similar index for labour over the same period?

Mr. GORDON: Yes, we have that here. Again, just checking my qualifications, because it seems to me there can be no straightforward answer to any question in connection with railways. On the question of employees covered by wage agreements, which, of course, is the great bulk of the railways employees, the index has risen to 223.9, using 1936-38 as a base. I think that is the figure you ask for?

The CHAIRMAN: Yes.

Mr. GORDON: If you applied that to all employees it would be 212.3.

The CHAIRMAN: Any further questions on operating revenues?

Mr. McLURE: Just one question. This pulpwood traffic increase; the earnings from that would be all Canadian, would they not? We do not ship very much pulpwood to the United States, do we? Pulpwood is shipped from this country in another form, after it is processed into newsprint? We in Canada are the largest producers of newsprint in the world.

Mr. GORDON: There is a fair amount of pulpwood moved. I am just wondering whether we have that figure in our tables.

Mr. FULTON: It is on page 45.

Mr. GORDON: Yes, on page 45 you will find the tonnage figure for pulpwood was 7,321,157 as against 4,232,336 in 1950. There was a very large increase in the tonnage of that commodity. I have not the figure of the actual amount of that that went to the United States. Some went, undoubtedly. It is not an important element.

Mr. McLURE: No, but what I was wondering was whether most of that pulpwood was processed in Canada and then shipped as newsprint to the United States.

Mr. GORDON: That is right.

Mr. McLURE: Because they are the largest buyers in the world and we are the largest producers.

The CHAIRMAN: If there are no further questions on those two items, operating revenues and expenses—

Mr. MACDONNELL: It seems to me this would be the point at which to ask Mr. Gordon to say what are the comparable freight rate increases in the United States as compared to Canada. It seems to me that it is relevant to have some information of that kind. It is important information.

Hon. Mr. CHEVRIER: Well, the United States are still ahead of us, Mr. Macdonnell.

Mr. GORDON: I have it here. The overall figure—I suppose you are not interested in the breakdown—the overall figure shows that increases in freight rates effective in 1952 would bring the United States increase to 79.3 per cent. That compares with Canada's total of 54.7 per cent. Are you looking for the overall increases?

The CHAIRMAN: As long as the comparable figures are used we will get the true picture.

Mr. GORDON: The actual increases authorized in the United States would be—there is an increase which becomes effective on May 2—106.5 per cent.

Mr. MACDONNELL: Since when?

Mr. GORDON: That would be since 1948—it is from 1938 really, to date. The United States would be 106.5 per cent compared with the Canadian figure of 78.9 per cent.

Mr. MACDONNELL: From 1938?

Mr. GORDON: No, no. 69.9 per cent in Canada, as compared with 106.5 per cent in the United States as of May this year.

Hon. Mr. CHEVRIER: There was a recent increase in the United States?

Mr. GORDON: Yes, and that becomes effective on May 2.

Hon. Mr. CHEVRIER: You are including that in the 106.5 per cent?

Mr. GORDON: Yes.

The CHAIRMAN: Before we adjourn at one o'clock, one matter has been called to my attention, which is that the Defence Expenditure Committee meets tomorrow morning and some members of this committee will, of necessity, be absent. I think, this afternoon, if the committee is willing, we should give the right of way and even go out of order in considering the report, if necessary, in order that those members who will be absent tomorrow will be able to ask the questions which they would want to ask tomorrow morning. I should also indicate to the committee now as to our times of sitting. It has usually been the practice of this committee to have an afternoon sitting on the first day, but not to have an evening sitting on the first day; on the second day, to clean up our work and sit in the evening if we require to.

Mr. MACDONNELL: Is it considered absolutely inescapable that this committee has to sit tomorrow morning?

The CHAIRMAN: Yes, Mr. Macdonnell. We have not only the president here but the vice-president and the high ranking executive officers, and we cannot keep these men sitting around Ottawa at our convenience.

Mr. MACDONNELL: They have passes on the train to Montreal.

Hon. Mr. CHEVRIER: Meanwhile they are sitting here doing nothing.

The CHAIRMAN: We will accommodate members of the committee, then, who want to be away tomorrow morning. We will let them ask any questions in advance of our work, but we cannot ask these officials to be absent from their desks for more than two days.

AFTERNOON SESSION

APRIL 28, 1952.

The CHAIRMAN: We have a quorum, gentlemen; we will carry on. Are there any further questions on operating revenues or operating costs?

Mr. FULTON: Have you finished with paragraph 1?

The CHAIRMAN: If not, I will declare the item carried.

Mr. FULTON: Paragraph 1, you mean, I take it?

The CHAIRMAN: No, it covers the whole subject of operating expenses.

Mr. FULTON: I have something that I want to raise when we get down to paragraph 23, under the heading operating expenses, employee compensation. I thought that you were taking it paragraph by paragraph.

The CHAIRMAN: No.

Mr. FULTON: That is all right. Under paragraph 23, I would like to ask Mr. Gordon whether there has been any approach by the employees—I am afraid that I do not remember the exact technical term for the employees concerned—but I mean those who went on strike—

Mr. GORDON: The non-operating.

Mr. FULTON: —in 1950. Has there been any request by them for a revision of the agreement which was arrived at as a result of the recommendation of the arbitrator? I am asking you that because early this Spring they approached me and pointed out that the agreement was made operative for two years whereas the normal contract arrived at by the ordinary collective bargaining process was operative for only one year; and since about the time the decision of the arbitrator was applied the increase in the cost of living has gone well up at a pace even faster than was usual and therefore they were severely prejudiced by their own inability to look for a revision or a new agreement except at the end of two years. But to a small group who approached me I said that I thought the proper thing to do in the first place would be to take it up with the railway management and see if they were willing to enter into talks recognizing the difficulty of the men, and they have indicated to me that this particular local would find it difficult to do that, but they indicated to me that there was some chance that their union would do it. I wonder if Mr. Gordon would say whether there was any approach for a revision of that agreement, or, if it was binding for the whole period of two years.

Mr. GORDON: Yes. We have been approached by the representatives of the non-operating trades who asked that we consider the fact that the cost of living had risen since the agreement was signed and whether we would be willing to discuss with them a revision in wages for this reason. We met and discussed the request with them and told them that our point of view was that the basis of their request couldn't be justified in that way. We pointed out that the cost of living had risen roughly 12 per cent, but that their wages as put into that agreement had risen by 25 per cent; and that if they were really prejudiced in the amount of money, so to speak, it was by reason of the fact that they had elected to take a 40 hour week instead of a 48 hour week, so we felt that there was no firm basis for re-opening agreements which were scheduled to run for two years. That is where the matter stands now; that would be the non-operating groups. We have before us currently quite a number of demands from the operating trades which are now in process of discussion.

Mr. FULTON: I do not want you personally to answer this, Mr. Gordon, because I think that it should be discussed privately between the unions and

yourself. Am I correct in my understanding that with respect to the position of the non-operating trades they have the right under the arbitrator's decision to serve notice—is it six months before the expiration of the two years?

Mr. GORDON: No, it is 60 days.

Mr. FULTON: 60 days, and my recollection is—that makes it sometime around September of this year?

Mr. GORDON: That agreement expires in September of this year so notice would have to be given to us 60 days in advance of that expiry date; they would have to serve notice on us about the first of July.

Mr. FULTON: Sometime about the first of July?

Mr. GORDON: That is right.

Mr. FULTON: Then it would be sometime now before you will be taking this matter up with them again.

Mr. GORDON: Yes.

Mr. FULTON: Unless someone else has a question on that point, Mr. Chairman, I would like to ask one on paragraph 27.

The CHAIRMAN: We haven't reached paragraph 27 yet, Mr. Fulton; if you don't mind? Are there any further questions on the sections up to and including section 26? If not, I will declare the first part of this report carried.

Mr. McLURE: With reference to purchases, I would like to ask one question about the 10 per cent sales tax. Does the C.N.R. have to pay that 10 per cent on all its purchases of supplies for individual lines?

Mr. GORDON: Yes, exactly as a private company does.

Mr. McLURE: That would be quite a large item, would it not?

Mr. GORDON: Yes, it would be a considerable amount. I haven't got the detail down here. We might be able to get a figure on that for you. I have a statement here which shows our taxes on materials purchased—that is really what you have in mind?

Mr. McLURE: Yes.

Mr. GORDON: On them we paid federal sales tax estimated at \$16,362,000 and a further amount of \$3,331,000 in duty.

The CHAIRMAN: Shall paragraphs 1 to 26 carry? If so, we will go on with—

Mr. POULIOT: Mr. Chairman, just before you leave that, I would like to ask Mr. Gordon if they have any separate figures showing the relative earnings on the central region as compared to the other regions. I would like to know how much the earnings were on the central region, on the maritimes—the eastern region, and so on.

Mr. GORDON: While we have accounting figures for the various regions I do not think we make a practice of breaking them down for the different sections. Did you have in mind getting that information section by section?

Mr. POULIOT: Well, Mr. Gordon, I will tell you why I asked that. I understand that the central region is the largest region on the system?

Mr. GORDON: That is correct, in a sense; but, you see that is the difficulty of taking one region—you might have more revenue there and that would show in our accounting figures for that region; for instance, that might be the one region on which you had your greatest volume of traffic.

Mr. POULIOT: I know that, but there are regions in which you have less traffic and which pay less.

Mr. GORDON: That is quite right, quite so; in other words, our heaviest volume of traffic is in the central region and there we get our highest amount of earnings out of the central region.

Mr. POULIOT: And the western region has the longest mileage?

Mr. GORDON: Yes.

Mr. POULIOT: And the shortest mileage is the eastern, the maritime region?

Mr. GORDON: If you are talking about region by region; yes, that is correct.

Mr. POULIOT: Yes.

The CHAIRMAN: Shall paragraph 26 carry?

Carried.

Then we will take paragraphs 26, 27, 28 and 29.

Mr. FULTON: Under other income accounts, paragraph 27; I would like to ask Mr. Gordon if there is any figure included in that total in the form of revenues from oil leases in Saskatchewan?

Mr. GORDON: Yes, it appears in that general total.

Mr. FULTON: Can you tell us—I raised this simply because I remember we had some, shall I say vigorous discussions about it a couple of years ago?

Mr. GORDON: The annual rental earned from our oil leases, in total, amounted to \$326,875.

Mr. FULTON: You use the word "rental", Mr. Gordon: is that the usual form of lease rental payable prior to any production?

Mr. GORDON: We call that rentals, it is revenue from the leases.

Mr. FULTON: From the leases; in other words, there has been no oil production from this planned as such?

Mr. GORDON: That is quite right.

Mr. FULTON: Are you in a position to give us any expectation with regard to the production of oil?

Mr. GORDON: No, I am afraid I cannot do that. I do not know.

The CHAIRMAN: If there are no further questions on paragraph 27:

Carried.

On paragraph 28—sale of land.

Mr. MACDONNELL: I noticed the sale of land is credited to income account. It looks like capitalizing it.

Mr. GORDON: I would like Mr. Cooper to speak to that. These are figures we have argued about many times ourselves.

Mr. COOPER: It would be a capital gain but the amount involved is quite small in relation to the size of our income account.

Mr. MACDONNELL: What do you mean by capital gain; profit?

Mr. COOPER: Excess over the book price, yes.

Mr. MACDONNELL: I was not just clear as to what it meant.

The CHAIRMAN: The Income Tax Department, if it were a private company, would say it was a capital gain, a gain on capital account—any sale in excess of the depreciated value.

Mr. MACDONNELL: I did not realize that.

Mr. COOPER: The sale price, to the extent that it recovers the original cost, would be credited to our investment account; any excess over that is a capital gain; but for our accounting purposes, we account for it through the income account.

Mr. GORDON: It is a matter on which a difference of opinion can exist. There is no doubt about that.

Mr. MACDONNELL: I did not realize as I read this. It seemed at first blush to indicate that this is land which you sold to Abitibi. Would it be a land grant?

Mr. GORDON: Originally; I will give you the details. It was land that was originally obtained from the Grand Trunk Pacific Railway in 1909 and 1910 as a subsidy for construction of the Lake Superior branch, between Fort William and Sioux Lookout. It covered 10 blocks of land between Fort William and Sioux Lookout; and it comprised altogether 635,039 acres, with mineral rights. But we sold the mineral rights in order to save taxes. We considered it very carefully, and that was a decision which we weighed for some time, whether or not we were to waive or to retain the mineral rights. But we came to the conclusion that the taxes which we would have to pay in order to retain them just did not seem to justify it.

Mr. MACDONNELL: What taxes have you had to pay per year?

Mr. GORDON: I think I have that information here. The retaining of the mineral rights would involve the railway in an annual payment of approximately \$63,000.

Mr. MACDONNELL: I suppose there has been some geological assistance sought with respect to this matter?

Mr. GORDON: Yes. It has been explored. We have given permits to people for many years, and there have been prospectors in and out of that country, and it has been gone over very completely. We also had that in mind when we took our decision.

Mr. MACDONNELL: In your investment account, how did you arrive at it? What was the amount of the investment? What price did you pay, and at what price did you sell?

Mr. GORDON: Did we mention a sum here? Let us say we had a consideration of \$1,600,000. It was the difference between that and—oh, you had better not give that figure. But we got a price which was a good price, we thought; and I should say incidentally that that property had been leased to the Abitibi Power Company on a long standing lease, which gave them cutting rights on the property until 1970. Therefore the property was encumbered by that lease which had been given to the Abitibi people, and therefore the Abitibi people were the logical purchasers. If we had sold it to anybody else, it would have had to be sold subject to the provisions of the lease.

Mr. MACDONNELL: Do you carry it in your investment account at the full investment, and so on? I mean, would the taxes go into it as well?

Mr. GORDON: The taxes would be carried in our income account.

Mr. MACDONNELL: So actually you are reckoning your profit, as you have said, at a cost of \$1 an acre.

Mr. GRACEY: That was not the profit. You asked for the value.

Mr. MACDONNELL: I was trying to figure out how you arrived at your profit.

Mr. GORDON: The profit should be put in inverted commas. What we are talking about is this: there is a difference between what we carry it for in our books, our book value, and the amount which we received.

Mr. MACDONNELL: But how did you arrive at the amount which is shown in your property investment account?

Mr. GORDON: Originally?

Mr. MACDONNELL: No. The amount which was set out when you sold it.

Mr. COOPER: It was a figure which was arbitrarily set up for bookkeeping purposes. As a matter of fact, the land cost us nothing.

Mr. MACDONNELL: Yes; but you had to pay the taxes from year to year.

Mr. COOPER: That was not part of the cost of the property to us.

Mr. GORDON: We are getting income from the property in the form of a lease. We are taking income in there and we are charging against the property any expenses we have in the form of taxes or anything else for the upkeep of the property.

The CHAIRMAN: Are there any further questions on paragraph 28?

Carried.

Are there any questions on paragraph 30, "Hotel Operations"?

Mr. McLURE: May we have the amount of the net operating gain for the Hotel Charlottetown?

Mr. GORDON: Would you look at the results?

Mr. McLURE: And it also operates the Dalvay, a summer resort.

The CHAIRMAN: I shall now call paragraphs 30, 31, and 32 so that you may have a full discussion on them.

Mr. GORDON: The net operating income for all hotels is reported as being \$588,000. You will refer to paragraph 30, on page 9 at the bottom; the Chateau Laurier showed a \$388,000 profit. Did you want the other hotels? The Fort Garry, \$60,000; the Macdonald Hotel shows a loss of \$164,000 which is due in part to the fact that we are starting a write-off in connection with the extension we are building in the Macdonald Hotel. The rest of them is \$85,000. These are profits, incidentally, \$57,000 for the Nova Scotian; \$13,000 for the Charlottetown; \$16,000 for the Prince Arthur; \$20,000 for the Prince Edward; \$106,000 for the Jasper Park Lodge; and \$13,000 for the Minaki Lodge; \$3,000 for the Pictou Lodge; and a shortage of \$9,000 for the Newfoundland Hotel.

Mr. MACDONNELL: What do you charge that on?

Mr. GORDON: That is simply operating results; it does not include any interest or depreciation.

Mr. GEORGE: What do you mean by "shortage" for the Newfoundland Hotel? Is that a deficit?

Mr. GORDON: A deficit, yes; not a cash disappearance, no.

Mr. MACDONNELL: Are these hotels an easy load to carry?

Mr. GORDON: The only effect of charging them with interest and depreciation would be to show that they are operated at a substantial loss right through the picture.

Mr. MACDONNELL: Yes, I appreciate that.

Mr. GORDON: It would not make any difference to the results of our over-all system. We take it in on one side and pay it out on the other.

Mr. MACDONNELL: Well, I am very old fashioned to prefer showing the actual situation; and you must agree that is not the actual situation. It is not the kind of thing that anyone, except it be a government enterprise or system, would do.

Mr. GORDON: We do it for our own information. The only difference between the two methods is that in this system we just take in the net results in our figures.

Mr. MACDONNELL: But in respect to the railway as a whole you are showing us the full picture. So why do you feel it necessary with respect to these hotels to show us such a highly unreal picture? Is it for the sake of the morale of the employees, or what?

Mr. GORDON: We have stated the net operating income. We have stated the truth.

Mr. MACDONNELL: I know; and I only ask you to tell us the reason.

Mr. GORDON: I cannot give you a reason at all except that it has always been done that way. Have you any reason for it, Mr. Cooper?

Mr. MACDONNELL: We did not expect you to say that.

Mr. COOPER: The same might be said with respect to all the services of the railway, such as the express and communications departments. If all the interdepartmental activities of the railway were apportioned between departments, it would involve a very great deal of effort to arrive at the final result. If you want to know the results of any separate operation, we can give you the figure; but it is not usual in a system such as ours to have one department charge another with interest or depreciation.

Mr. MACDONNELL: You say it is not usual in a system such as yours to have one department charge another with interest or depreciation; but let us consider the railways in the United States. Do any of them run hotels?

Mr. COOPER: I do not think so, unless, they have separate companies for that purpose.

Mr. MACDONNELL: Would their express departments be treated in the same way, or would they have to carry the load of depreciation?

Mr. COOPER: They do not have express departments such as we have.

Mr. GORDON: This is a consolidated balance sheet; and when you have a company which is a consolidation of a lot of other companies, they usually wash out their interdepartmental entries as being meaningless. It is the net effect that gets into the balance sheet; and most accountants wash out their interdepartmental entries; and it is the totals which go into the consolidated balance sheet, which this is. It does not cover the Canadian National Railways. It covers the Canadian National System and it includes from 130 to 150 different units of departments of companies and so forth and it washes out any interdepartmental entries.

The CHAIRMAN: Would this answer your question? Mr. Cooper has said that he has the information available; and if he would give you the actual detailed information, let us say, with respect to the Chateau Laurier Hotel, would it answer your question, Mr. Macdonnell?

Mr. MACDONNELL: I do not want to labour the point and take up the time of the committee; but I would like to make this observation: first of all, this seems to me to be different from a good many other aspects of railway work because it seems to me it is not necessarily a railway activity; it is one which can be isolated. I do think—and I feel very confident about this—that in any private business they would want to have that before them constantly; they would want to have the exact results before them. I happen to live in a Canadian National Railways hotel and I do not want them to raise their rates; but it seems to me very desirable that the railway should not feel that it has an operating income of \$588,000 when it probably has a deficit. That is all. I asked Mr. Gordon why it was done that way, and he said that it has always been done that way. I wonder if when Mr. Gordon comes here next year he would tell us if he has considered it on its merits and feels that it is either a good thing or a bad thing; in other words, not tell us merely that it has always been done that way.

Mr. GORDON: I will justify it or I will tell you that I have changed it.

Mr. FULTON: What is the practice of the Canadian Pacific Railway with respect to their hotels? Is there any indication of their practice to be drawn from their annual report?

Mr. COOPER: The Canadian Pacific would not charge their hotel department with interest on their investment in hotels.

Mr. FULTON: Would they charge depreciation against the revenue of the hotel?

Mr. COOPER: Yes, they would, because they do so with all fixed property, including their hotels and railways, but we do not. We do not set up depreciation on fixed assets.

Mr. GORDON: In view of the recent announcement by the government that the Canadian National would be subject to income tax, we may be taking a new look at our accounting methods.

Hon. Mr. CHEVRIER: If Mr. Gordon takes a look and is able to produce a document which shows a deficit on these hotels, the government might decide to close down some of them. It would not be so good.

Mr. MACDONNELL: That would be the government's responsibility; but your argument, Mr. Minister, or what you are really arguing is that we should not—you are implying that we do not want to look at the reality of the thing because it might be unpleasant. But I feel that in business it is very desirable not only to have the relevant background, but to have it before your eyes as much as possible.

Hon. Mr. CHEVRIER: If we looked at the record, we would not build any branch lines.

Mr. MACDONNELL: If we are going to build branch lines, we want to know what is being done.

The CHAIRMAN: Paragraphs 30 to 40, property investment account.

Mr. FULTON: You have not got anything there, Mr. Gordon, on the Sherridon line. Was that not started last year in time to be reflected in this property investment account?

Mr. GORDON: There was a very small amount last year. It is mentioned further on in the report.

Hon. Mr. CHEVRIER: Yes, there is a rather good statement on it on page 17—under new branch lines.

The CHAIRMAN: Shall we deal with it under new branch lines?

Mr. FULTON: Yes.

The CHAIRMAN: Shall sections 30 to 40 carry?

Carried.

Mr. MACDONNELL: Are you carrying 30 to 40 all at once?

The CHAIRMAN: Well property investment account.

Mr. MACDONNELL: I would like to hear something of the breakdown of that \$85 million.

Mr. GORDON: If you will turn to page 32 you will see the breakdown of the whole thing.

Mr. MACDONNELL: There is a large figure for equipment. Perhaps when you come to the 1952 budget you will be able to give us the information?

Mr. GORDON: Yes, it is detailed in the budget report.

The CHAIRMAN: Are there any further questions on paragraphs 30 to 40?

Carried.

Paragraph 41—financing.

The CHAIRMAN: Paragraph 41?

Carried.

Mr. MACDONNELL: I would like to ask a question rising out of paragraph 41. I notice in your operating expenses you show a large figure for the depreciation

of equipment—page 28. Would Mr. Gordon say something about that kind of depreciation of equipment and in general with regard to the rest of the operation too? I notice that in your U.S. lines you have certain references to depreciation. Does that mean there is a difference with respect to the accounting on U.S. lines, and would you say something about it?

Mr. GORDON: We have a different system on the U.S. lines and on the Canadian lines. Again I will have the accountant speak specifically because depreciation accounting on the railroad is a very complex subject. Mr. Cooper could make it much clearer than I.

Mr. MACDONNELL: I do not want to take up the time of the committee but I want to understand in a general way what is done with respect to depreciation accounting.

Mr. COOPER: In so far as rolling stock equipment is concerned our practice in Canada is identical with the practice in the United States—

Mr. MACDONNELL: Which is what? Would you just describe it? I notice you have a figure of \$21 million for depreciation equipment, is that right?

Mr. COOPER: In our expenses?

Mr. MACDONNELL: Yes? How is that arrived at?

Mr. COOPER: It is based on the original cost, with an allowance for salvage, and the difference is amortized over the expected life of the equipment.

Mr. MACDONNELL: What does "equipment" include?

Mr. COOPER: Engines, passenger cars, freight cars, and steamships.

Mr. MACDONNELL: In other words, rolling stock or the equivalent?

Mr. GEORGE: We cannot hear a thing down here; they are carrying on a private conversation.

Mr. COOPER: In brief I may say that we charge expenses with $3\frac{1}{2}$ per cent per annum on the ledger value of our equipment. Does that dispose of equipment?

Mr. MACDONNELL: Yes, I think it does.

Mr. COOPER: We have a difference in practice between Canada and the United States with respect to fixed property—meaning stations, shops, bridges, and things of that nature. I wish to exclude what is called track structure, meaning rails, ties, fastenings, ballast—

Mr. FULTON: Infrastructure?

Mr. COOPER: I beg your pardon?

Mr. FULTON: Just a passing reference.

Mr. COOPER: What I am speaking about is not track structure, it is fixed property other than track structure. In Canada the Canadian National Railway does not accrue depreciation on fixed property, but in the United States we do. Under the accounting rules of the Interstate Commerce Commission we are required to accrue depreciation on roadway property, so there is a difference between our Canadian and United States lines in that respect.

Mr. POULIOT: By "track structure" do you mean the right of way?

Mr. COOPER: Not the right of way itself. I mean the rails, ties, fastenings and ballast.

Mr. MACDONNELL: Getting away from the words in technical terms, do you in fact charge yourself in respect of your trackage on the whole railway line with enough year by year to provide not only for repairs but renewals?

Mr. COOPER: Yes, provided you are speaking of renewals at original cost. We do not provide through operating expenses for the difference between original cost and the cost to replace a unit of property. If, for example, a

water tank had been constructed twenty years ago at a cost of \$10,000, and if it were renewed today at a cost of \$15,000, the full cost of the renewal is not charged to operating expenses.

Mr. MACDONNELL: Is that usual railway practice on this continent?

Mr. COOPER: It is standard railway practice, yes.

Mr. MACDONNELL: When you have a different figure for the United States it does not indicate they are there in effect providing for it. As I understand it you actually provide depreciation although you do not use the word. You provide it providing the costs have not risen—although there is not enough to take care of replacement which is in excess of the original cost in the ordinary case?

Mr. COOPER: That is so, and that is the practice in the United States and American railroads would not be permitted to do otherwise.

Mr. JAMES: It would be practically the same in any industry?

Mr. COOPER: Yes. Depreciation is based on original cost and not on the cost of replacement.

Some Hon. MEMBERS: Carried.

Mr. POULIOT: Before it is carried is it possible to know the standard weight of rail on the railroad?

Mr. GORDON: That varies depending on whether it is a main track, a branch line, a spur line, and so forth.

Mr. POULIOT: What is the average?

Mr. GORDON: We range from the lowest class of 56 pounds to 132 pounds. The 132 pound rail is what goes on the main lines—that is our super railway.

Mr. POULIOT: Yes, with steel plates under the rails?

Mr. GORDON: In some cases, yes.

Mr. POULIOT: For the fast trains?

Mr. GORDON: Yes.

Mr. POULIOT: But that is not an answer to my question. I would like to know the average weight of rail?

Mr. GORDON: I do not know if I can give you an average weight. In main line structure—what would you call a main line?

Mr. POULIOT: Montreal to Toronto?

Mr. DINGLE: Well, in the case of Montreal to Toronto we range there from roughly 115 pounds to 132 pounds.

Mr. POULIOT: I know down home that it is 120.

Mr. DINGLE: It would be in that range, or a little lighter.

Mr. POULIOT: On the Montreal to Toronto line it is 130?

Mr. DINGLE: The heaviest rail we have on the Atlantic region is 100 pounds.

Mr. POULIOT: 100 pounds?

Mr. DINGLE: Yes, sir.

Mr. POULIOT: Trains go at terrific speed?

Mr. DINGLE: Yes, sir.

Mr. POULIOT: Is it the intention of management to improve the rail conditions?

Mr. DINGLE: The rail weight depends on the density of the traffic. On a heavy traffic line we will install heavier rail than on a light one.

Mr. POULIOT: But it is a vicious circle. If you do not put heavy enough rail on some types of railways you cannot expect much traffic?

Mr. GORDON: We have to cut our coat according to the cloth. Every year we come to this committee with a very substantial budget for relaying rail and ballast and so forth, and we proceed as quickly as we can with the labour and supplies at our command. The railway is never built; it is always being built. We are building it every day.

In our main lines we are trying, as quickly as we can, to bring them up to a standard which will be common.

Mr. POULIOT: But you will probably agree, Mr. Gordon, that the first thing for railway safety is a good track structure?

Mr. GORDON: Quite so.

Mr. POULIOT: It is the basis of the transportation?

Mr. GORDON: It is one of the safety factors. Of course we have that in mind in connection with the speed and the loads on trains. We have rail in mind when we marshal the trains; when we run trains through a given weight of rail the operating instructions take cognizance of the fact that certain speeds have to be maintained or kept in hand.

Mr. POULIOT: What railway and branch railway lines have only 56-pound rail?

Mr. GORDON: The 56-pound rail would only be on sidings or spur lines where it is not a safety factor at all. There is practically no—or I do not know of any important main line which would have 56-pound rail left on it. Would that be right, Mr. Dingle?

Mr. DINGLE: We have 277.69 miles of 56-pound rail on the Atlantic region; 192.04 56-pound rail on the central region and in the west we have 552.44 miles; and on the Grand Trunk Western we have 10.80 miles.

Mr. GORDON: If you consider that in terms of the figure of 24,273 miles of main line track, as I say, it is not a factor of importance.

Mr. POULIOT: I am not so sure of that. What is the average life of rail?

Mr. DINGLE: That depends.

Mr. POULIOT: The lifetime.

Mr. DINGLE: It is hard to say what the lifetime is. Where the traffic is heavy it is less than on the lighter traffic lines.

Mr. POULIOT: Yes, but the average lifetime of rail is what?

Mr. DINGLE: Some rail has been in service thirty or forty or close to fifty years on some of the lighter lines.

Mr. POULIOT: Even more than that?

Mr. DINGLE: I would imagine so, in some places.

Mr. POULIOT: Would you please tell me lines in the Atlantic region where the rail is only 56 pounds?

Mr. DINGLE: Well, the Temiscouata is one.

Mr. FULTON: Were you not practically forced into buying that?

Mr. DINGLE: I do not have a breakdown of the whole mileage.

Mr. POULIOT: But on what other lines in the Atlantic region have you that rail? If you prepare a memorandum I will be satisfied.

The CHAIRMAN: Mr. Pouliot, would it be satisfactory if Mr. Dingle gave you a typewritten answer to that question?

Mr. POULIOT: Yes, Mr. Chairman.

Mr. GILLIS: But I would like to see it in the record. I would like to find out where the rail is that has been down for fifty years.

The CHAIRMAN: Oh, it will go into the record.

Mr. POULIOT: We will take it up again after we study it.

The CHAIRMAN: When you get the answer, if you wish to ask any supplementary questions you may.

Mr. POULIOT: Thank you, it was just an interlude.

Mr. JAMES: I have a question in connection with the Port Hope to Millbrook line which was listed. I wonder if you are keeping good track of that. We hope to be one of two places mentioned in the recent announcement regarding the iron ore in Durham and Northumberland and for that reason I hope you are keeping pretty good track of that line. When the time comes possibly you will have a right of way and be able to put the rails back in if it becomes necessary. I do not know whether you have any information on that?

Mr. GORDON: Are you referring particularly to the line to Millbrook?

Mr. JAMES: That is the one.

Mr. GORDON: I have no information before me particularly. Your question is whether we are keeping the right of way in such shape that if we discover later that new business is offered we will be able to carry on?

Mr. JAMES: Yes.

Mr. GORDON: I will take a note of that but I cannot tell you. Do you remember if we decided to pull the rails up there, Mr. Dingle?

The CHAIRMAN: Perhaps you would be content to an answer to that later?

Mr. JAMES: Yes, that is fine; there is no hurry.

The CHAIRMAN: Paragraph 42.

Mr. MACDONNELL: Well, I am very conscious of the fact that I am taking more time than some people and that is not because I want to do it but either we are here to discover some of the important things or we are not.

The CHAIRMAN: Any questions you want to ask please ask?

Mr. MACDONNELL: Quite frankly I find it quite tiresome, when I am trying to find information to have someone else say carried. I am quite willing to stand aside in favour of others, but I don't think we have explored this question of depreciation sufficiently yet. It has been said, and with truth, that in an ordinary company when depreciation is set up it is set up in respect of the original cost, but that is not the final answer as far as the railway is concerned. The ordinary company has found that replacement costs two or three times as much. I understand the Trans-Canada Air Lines in their accounts is giving effect to that. I was told the other day they were setting aside a special amount because of the increased cost of things. What I want to get at is this: with costs going up two and three times, as they have been doing in certain cases, are we running into a tremendous cost which is pyramiding against us in respect of replacement I think we should know it now, if that is so. On the other hand, if the account is taking care of itself gradually there is nothing much to say, and if Mr. Gordon assures us to that effect, I think I am content, but I think we should be clear that we are not gradually getting into a situation where the capital grants we are going to have to make to replace, say, for steel rails and all kinds of other things will cost a greatly increased amount, and that we are not going to be faced next year with extra tens of millions. Perhaps Mr. Gordon will speak to that later. I think this is a very important matter.

Mr. GORDON: I would like to say this, that each year this committee has reported our capital budget and each year you will see there what it is we are asking in the form of new equipment or capital expenditures for additions and betterments, and each year you will see the amount we set up out of depreciation, and from those figures you can form a judgment as to what has happened to our capital account. I do not know how it is possible to suggest a method of depreciation which will provide for inflation. I do not know how you could measure the degree of inflation to take place over the next ten, twenty or thirty

years on a given piece of property. I do not know how to do it and I do not think any accountant has found out, either. It is one of those accounting discussions that we can have different views on all the time. The standard practice has been, and confirmed in the United States railways, that we depreciate on the original cost, and then the inflation that takes place in regard to cost of the replacement is provided for when the new article is bought with a capital requirement. Now, the same thing is true in reverse. Suppose we may get a situation where the replacement cost will be less than the original cost.

Mr. MACDONNELL: This leads me to an item of \$9 million here.

Mr. GORDON: What happened there is that through the war \$35 million was set aside to take care of what is called deferred maintenance. In other words, it was recognized that during the war it was impossible to get either labour or material to maintain the railway currently to the extent which it should have been maintained and there were very heavy arrears of maintenance that accumulated through the war, so \$35 million was set up and each year we take the amount set over five years. That is, we took \$9 million as the last portion of that \$35 million.

Mr. MACDONNELL: And the reason for the credit is that that was all a special fund that was brought in?

Mr. GORDON: That is right. It was brought in again.

The CHAIRMAN: Any further questions on depreciation?

Carried.

Mr. POULIOT: One question, Mr. Gordon. You probably are aware of the fact that the railway bought two new steel bridges a year ago for the Temiscouata Railway. One is at Edmundston and the other is at Riviere du Loup. These are steel bridges and they have been lying rusting in the field instead of being put into place. Why is that?

Mr. DINGLE: That was simply, Mr. Pouliot, because of the fact that our bridge gangs were completely tied up on the Atlantic Region last year on account of heavy floods on the Gaspé line. It is the intention to install these bridges this year.

Mr. GORDON: Incidentally, your reference to the bridges rusting and so forth—I might say that that will not do them any damage. The bridges are not being damaged at all by the way they are stored.

Mr. POULIOT: Well, the railway is not so good without the bridges.

Mr. GORDON: I will agree a railway line without bridges is something to be deplored.

The CHAIRMAN: Shall item 42 carry?

Carried.

Shall item 43 carry?

Mr. FULTON: Could you give us a recapitulation of the purposes of the borrowed capital, \$73 million?

Mr. GORDON: On page 36.

Mr. FULTON: Yes. What I mean is, I do not recall—and I have not been able in the time at my disposal to look at the debates and see—what actually you wanted that capital for that you got last year. What are the major items or classifications on which you use that capital?

Mr. GORDON: Are you referring to the figure in paragraph 43?

Mr. FULTON: Yes.

The CHAIRMAN: The net increase in borrowed capital is \$73 million. That shows on page 36.

Mr. GORDON: Your question here is complicated by the fact we are talking about a net figure there, but if you will look at page 36 you will find that we borrowed from the government during the year a total of \$121 million, and out of that \$121 million, \$63,400,000 was used to pay off a maturing obligation in the hands of the public, and we paid off the public and borrowed the money from the government. \$57 million would represent general expenditures on capital during the year in the form of the budget that we put before the committee last year. It would cover the financing for the improvements to property during the year. It would cover such things as rolling stock, building track, building stations, in fact, anything at all affecting the railway generally.

Mr. MACDONNELL: Would that represent everything that the railway received during the year outside of its own earnings?

Mr. GORDON: You see, first of all we spent our earnings and this represents the additional amount of capital, at least the capital we spent.

Mr. MACDONNELL: Yes, I understand that, but is this all?

Mr. GORDON: That would be the whole thing, yes. I am sorry; perhaps I should have said that in addition to that, of course, we have our depreciation reserves. We spent those, too.

Mr. FULTON: As I see it from the table on page 36, the net borrowed capital which you used for capital acquisitions, if I am using the right words there, would be a total of \$13,500,000, plus the balance of \$57,568,000 remaining from what you borrowed from the government. Would that be correct, a total of \$71 million?

Mr. GORDON: The increase is \$73,893,000, you will see the figure at the bottom of the table there; it comes out to the net figure. While our loan from the government increased \$117 million, the increase in our capital debt is only \$73,800,000, because we used the balance to pay off maturing debt.

Mr. FULTON: Does that \$73 million represent also the amount of new capital assets that you acquired during the year?

Mr. GORDON: Yes, it would.

Mr. FULTON: Are you able, then, coming back to my first question, to give us—you see, what I find is that it does not correspond.

Mr. GORDON: I see your difficulty, Mr. Fulton. That expenditure covers the fact, for instance, that we got 5,000 box cars—taking that as an example. It covers our equipment purchases and it also covers the expenditures for the maintenance of the railway, at least, that portion of maintenance which we regard as new capital. When we do a job on the railway our practice is to consider part of it capital and another part general maintenance. If it is maintenance, we charge it to operating and if we regard a portion of it as new capital, then we charge our capital account.

Mr. FULTON: Could you indicate to me if there is any place in the report where we can get any summary of capital additions and betterments?

Mr. GORDON: If you will look at page 42 you will see an inventory of railway equipment there and you will notice that we start with what was on hand January 1, 1951, and then we show details of what we added during the year and what we retired, that is, wrote off our account during the year, and also what we did in our own shops in the matter of conversion of equipment and so forth, and that brings it to what we had on hand as at December 31, 1951.

Mr. FULTON: So those figures would mean that that \$73 million represents the capital portion of maintenance charges, is that correct?

Mr. GORDON: Yes, I can give you that. We will take the equipment figure, if we take the ledger value of our equipment as at December 31, 1950, the ledger value increased by \$57,183,000.

Mr. FULTON: I am sorry, I did not get that.

Mr. GORDON: If you will look at our property investment account on page 32, you will find a figure which comes out for our equipment, \$57,183,000. Now, that is part of the \$73 million. You are referring to the rest of it and that would be what I describe as being other capital projects. This is the rolling stock portion, in other words, of the capital plant.

Mr. FULTON: I do not want to pursue it to too fine a point, but I had in mind if we could get at what the railway acquired for this \$73 million, and I take it, then, that you can take \$57,183,000 and say that is the balance, the difference, between that and the \$73 million figure you read, the last item you mention.

Mr. GORDON: That is right. Put it this way: property investment other than rolling stock would be as good a description as any.

Mr. FULTON: That would include the hotels?

Mr. GORDON: Yes.

Mr. FULTON: The Edmonton hotel?

Mr. GORDON: Yes.

The CHAIRMAN: Any further questions on paragraph 43?

Mr. MACDONNELL: Just one question on that figure on page 32. You refer to two kinds of indebtedness there. The first you call, you speak of increase in loans from the government of Canada, \$117 million, which I understand is a difference between the \$43 million and the \$117 million. Now, you say, increase in loans from government of Canada, \$117 million, increase in capital debt, \$73 million. You make a distinction there. The capital debt is something that is funded and permanent, and this other figure you speak about just as a loan from the government.

Mr. GORDON: Yes, this is the same thing as the funded debt, because the last paragraph is the loan that carries interest, pays interest to the government just as if it were any other loan. It is a temporary loan. It is intended—perhaps I am speaking too fast here—but the intention is in due course we will float a public bond to repay the government for this advance.

Mr. PICARD: Unless you get relief from the government and you are not forced to pay it.

Mr. GORDON: That is something I could not comment on. We owe the government money as a railway and we intend to pay it back. There is no question mark against the validity of that loan any more than on any of our debt that we owe to the public.

Mr. PICARD: Any more than on your funded debt as a whole.

Mr. GORDON: No, we regard this as being in the same category.

Mr. FULTON: Would we not be justified in assuming this, that you regard loans made in recent years for capital acquisition in a different light from the things you had in mind in your submission in respect to reduction of your capital debt? As I understood it, what you had in mind there was old obligations which you took over and which, speaking generally and perhaps candidly, you would not have, say, any chance of repaying. Surely, you regard these in a different category from those?

Mr. GORDON: That is the basis of the submission we made for recapitalization. That debt charge is much too high against the property; and what form of relief we get for that will be for the government to determine.

The CHAIRMAN: Is it not true that the difference between the increase in loans from the government, \$117 million, and in the increase in capital debt of \$73 million is the net amount by which you have reduced existing liabilities by retiring existing securities?

Mr. GORDON: The net amount by which we have increased our liabilities in other words.

The CHAIRMAN: Well, an increase of \$73 million—

Mr. GORDON: That is right.

The CHAIRMAN: All right, but the increase in your loans from the government of Canada is \$117 million?

Mr. GORDON: Yes.

The CHAIRMAN: And the net difference between those two amounts is the amount by which you have retired existing debt, securities?

Mr. GORDON: That is right, the extent to which we have paid off public advances.

The CHAIRMAN: Certainly.

Mr. FULTON: That is, in other words, \$43 million.

Mr. MACDONNELL: Yes, \$43 million.

Mr. GORDON: Yes.

Mr. FULTON: Where does that \$43 million come from?

Mr. GORDON: That was borrowed from the public.

The CHAIRMAN: All right, it was borrowed from the public—

Mr. GORDON: And paid back at maturity.

Mr. FULTON: Paid for by the road?

Mr. GORDON: By borrowing from the government.

The CHAIRMAN: So it is an exchange of a government loan for a 4.5 per cent liability owing to the public.

Mr. GORDON: I would not want to have the impression get abroad that we regard a debt to the public in any different category, as any different form of liability. We owe that money and intend to pay it.

The CHAIRMAN: Yes.

Mr. GORDON: How we pay it is another matter.

The CHAIRMAN: Right. I just wanted to take the occasion here to establish the difference between the increase in loans from the government and the amount which you show as an increase in your capitalization.

Mr. GORDON: What we could have done just as easily when that loan matured was to go to the government for an increase in the public issue but we chose not to do that. The government and ourselves in discussion chose, for reasons of the effect on the market and otherwise—we decided that we would borrow from the government at the present stage.

The CHAIRMAN: Now, we come to operating performance. Would you care to make a brief statement of the broad reasons why you have been able so materially to increase the efficiency of your operation?

Mr. GORDON: Well, I think in large measure it is due to better mechanical operation, better tools, better machines, technological improvements and so on which have gone into the railway, and we are reaping the advantage of them now.

The CHAIRMAN: It appears to me to be a marvellous performance.

Mr. GORDON: I put in this paragraph particularly to highlight the fact that it is not true to say that the railways have not kept up with the times, so to speak. A lot of people are inclined to think that the railways are old fashioned and do not keep up with modern developments. This demonstrates clearly, I think, that over the years the operating efficiency of the Canadian National Railways has improved very materially by reason of taking advantage of these technological improvements.

The CHAIRMAN: Are there any further questions on "Operating Performance"?

Mr. MACDONNELL: Are you going to say anything about the suggestion of using lighter cars?

Mr. GORDON: We have in our research laboratories a number of interesting experiments under way, to see if we can reduce the weight of our cars. We have five aluminum hopper cars to test in actual service. We are not yet ready to say whether or not they will stand up under the beating which they get in handling heavy freight; but they are definitely being run in actual service and we shall learn from the tests, perhaps, about different kinds of construction, perhaps with aluminum. It may be that aluminum cannot be used just the same as steel; there may be different stresses and strains. I merely used aluminum as being one way of defining it. It may be that we can use a lighter metal. Aluminum is not the only one. We have progressive tests going on, and we are trying to see if we can get anywhere with a combined wood and steel construction, and with things of that kind, such as laminated materials of wood and so forth.

The CHAIRMAN: Have you any tests going on with respect to roller bearings?

Mr. GORDON: We have road tests on roller bearings of all types going on all the time.

The CHAIRMAN: For use in freight cars?

Mr. DINGLE: And on passenger cars.

The CHAIRMAN: Shall "Operating Performance" carry?

Carried.

Mr. McLURE: Mr. Chairman, under the heading of "Operating Performance and Technological Improvements" I would like to ask Mr. Gordon if he would make a brief statement with regard to the experiments with diesel electric locomotives as they are operated today in Prince Edward Island; and does he find them cheaper to operate?

Mr. GORDON: Mr. Dingle will be able to give you a more detailed answer than I can; but let me say that we have been quite satisfied with our experiment in Prince Edward Island. Our savings and economy in operation has worked out to pretty near what we estimated when we put in dieselization. Mr. Dingle will continue the answer from an operating point of view.

Mr. DINGLE: We show an operating economy in diesel versus steam of \$291,600 in Prince Edward Island, over a period of 12 months. In other words, the per cent of diesel to steam cost is 72.8 per cent, and we have a return on our investment there of 16.3 per cent.

Mr. McLURE: And you would say that the shipping public are quite satisfied with it, are they not?

Mr. DINGLE: Yes.

Mr. McLURE: I was under the impression that when diesel engines were put into operation in Prince Edward Island that no railway man would lose his position; that is, it would not cut down labour and would not throw a certain number out of employment. Well, I believe on the other hand they will. Several men have been thrown out of employment and have not been able to secure the same employment they had previous to the introduction of the diesel engines?

Mr. GORDON: That raises a general question in respect of the whole dieselization program. I think that I may as well deal with it now.

The CHAIRMAN: Yes, surely.

Mr. GORDON: I have stated in my report quite definitely, and I would like to quote:

This program will involve large capital expenditures, and can only be justified by the substantial economies made possible not only in train operations but also through the re-arrangement of servicing and repair facilities.

Now, I think it is well to keep in mind that the day of the steam locomotive is over. There are no new steam locomotives being built on this continent and they have not been built for some years. We will never buy a steam locomotive again because we cannot buy them. The question of dieselization is merely a matter of time—just a matter of how long we can carry on—how long we can carry on with the existing equipment. It is uneconomical to build into a steam locomotive more mileage than you intend to run out of it. So the only way, and what we have been trying to do, is gear the program for dieselization to make it fit in with the studied abandonment of the steam locomotive. Obviously that means a change in our activities respecting shops and respecting labour.

Our policy is to do it in as considered and orderly way as we can. What we have done is to set up training schools well in advance of the time we are going to need the schools training and every man who wants to will have an opportunity of equipping himself so as to get a job in the electrical work and so on that will be increased under dieselization. Certainly there will be some disruption or there will be some change.

As I have said before we cannot come before this committee and ask for very large expenditure of funds necessitated by this program unless we feel it to be economically justified.

As I say, it does mean some disruption but we are making a very great effort to do everything possible to retrain railway staff and to move men to places where they can be used—the older men particularly, who have been brought up with the steam locomotive. We will try to keep them on with the decline of the steam locomotive as long as we possibly can. I do not want to say anything that would lead anyone to believe that the program I have outlined does not mean change and does not mean some distress.

Mr. McLURE: Well, I want to find this out. It is not any longer an experiment. You have found it 100 per cent satisfactory?

Mr. GORDON: Absolutely. I can tell you this. I sat down last year, and as one of the first things I did when I came to my present position, I sent for our officials to find out what program we had in regard to dieselization. Frankly, we did not have a very carefully mapped program. We put special officers to work and they have been working over a year. It is a very big operation requiring considerable planning. We have established pretty generally on our through freights that we can afford to pay the capital necessary—the large amount of capital necessary in the through freight runs. By the economies achieved we will pay off that capital expenditure in a period of ten years.

Now, that is pretty good. It is pretty good, but remember in doing that that the use of diesel locomotives means that diesel repairs are only a fraction of steam repairs. That is one of the large economies one gets from dieselization. Your repair bill is cut way down. You get your biggest saving in the use of diesels in the fact that you get the maximum utilization of the locomotive. You can keep it busy. You can run a diesel almost steadily whereas a steam locomotive, like a human being, has to go into the roundhouse and get a little rest, and get pepped up again before it can go on with its work.

The CHAIRMAN: When Mr. McLure is through, Mr. George has the floor.

Mr. GEORGE: I would like to ask Mr. Gordon if the number of personnel employed presently in Moncton shops is going to be decreased—and it could very well be from what he has just said.

Mr. GORDON: I do not like to make forecasts because I think it is unfair to cause unnecessary worry.

Mr. GEORGE: May I add the rest of my question? If that statement of mine is found correct, could the railway give consideration to building some of their own rolling stock in this shop rather than giving it to outside firms?

Mr. GORDON: We have given considerable thought to the question of whether or not it would be wise for us to build our own equipment, and we came to the conclusion—our answer is no. I am giving that as a general statement, but the reason for it was that we did not feel we could get the economies to make it worth our while to make large capital expenditures which would be a duplication of existing facilities in this country, and, therefore, uneconomic from the standpoint of the country.

Mr. GEORGE: But you are still not necessarily saying the number of men that will be affected?

Mr. GORDON: I am not saying how the number of men will be affected because we have just started on this program on a long range basis. The program I mentioned is a five-year program and we have here a five-year objective and we hope to realize our objective year by year. That will cause adjustments in various years and various working classes, but I am not prepared to say the degree of the impact of it.

Mr. GILLIS: I would just like to say this, that technological advances inevitably will displace men. It is designed for that purpose. At the meeting of this committee last year—and Mr. Gordon will remember—I was not so much concerned with the displacement of manpower, because that will come anyway, but I was concerned about the effect that the dieselization of everything east of Montreal was going to have on another industry basic to the maritime provinces. At that time Mr. Gordon stated—and his statement today is completely in reverse to what it was at that time—he assured me at that time that the program of dieselization had to do with the west mostly and no program was in for dieselization east of Montreal, but since that date it seems there has been a lot of dieselization going on in that end of the line, particularly in freight. Am I to understand that the program of the Canadian National Railways, as set out by yourself today, is to replace all steam locomotives east of Montreal?

Mr. GORDON: I say that force of circumstances are bound to bring that about because there are no more steam locomotives being built. It is a question of time. It may be 20 years or 25 years before we have completely dieselized; but I say that inevitably there will be no steam locomotives as time goes on.

Mr. GILLIS: Then the projected objective of the C.N.R. is to become dieselized wherever they can—

The CHAIRMAN: No, no.

Mr. GORDON: No, no; I have never said that.

The CHAIRMAN: It was the eventual result forced by events, as I understood the answer.

Mr. GORDON: In other words, we have an inventory of steam locomotives. And now, this is a matter which has been before the executive many times as to how long can we keep our present equipment going by repairs and replacements—I refer to these same locomotives—how long? I can't give you that precisely, I say that it is a matter of judgment that will have to be taken from one year to another, and there will be portions of Canada where it is more economical to dieselize now than later. I must say that you are mistaken about what

I said last year. What I said—at least as I remember it—we were talking about the use of oil, and I said that our conversion to oil was largely in western Canada. That is what I said.

Mr. GILLIS: There was something about the program east of Montreal for dieselization at that time.

Mr. GORDON: Oh, I do not think I said that because, Mr. Gillis, at that very time diesels were running in the maritime region, and any such statement at that time by me would have been denied by the facts.

Mr. GILLIS: As I recall what you said was that there may have been one or two there as experiments. That is exactly what you said.

Mr. GORDON: I would like to check the record on that later, and if I find that is what I said I would like to withdraw it, I did not mean that.

Mr. GILLIS: What I am getting at is this: the coal industry is the basis of Nova Scotia's economy and it is going to be affected—anyway I would judge that it is going to be affected—by the loss of the C.N. market for coal, it is going to be quite a handicap for us; and I believe that there is a definite program that the C.N. is going out of the coal business at that end of the line. That being so, then I believe the people of Nova Scotia, particularly the coal mine operators in the district, and the industries, should have some definite time-table so they may be able to regulate their business as to the time they may expect to lose that C.N. market. I would be pleased if Mr. Gordon could just give us some indication along the line of a time-table as to when they expect the large coal market that we now have with the Canadian National Railway to be cut off.

Mr. GORDON: I do not foresee it as being a sudden loss. It will be a gradual decline as our steam locomotives wear out. I can give you a somewhat informal guess, but that is about as far as we can get.

Mr. GILLIS: I would like to ask you a question. Of course, I do not believe that you will be able to use diesels east of Truro, down that road.

The CHAIRMAN: I notice a number of members looking at the clock and I would appreciate it if the committee would bear with us so that we might finish this item we are on now so that we might start tomorrow morning with item 14, signalling and track equipment. If the committee are willing I would very much like to finish with the item now before us.

Mr. GILLIS: I am willing to drop it right here. There may be some other item on which I can bring it up again.

Mr. GORDON: I can give you just a guess, if you will take it as a guess—you understand that it is nothing more than that?

Mr. GILLIS: No.

Mr. GORDON: If you are willing to take it as a guess; in our studies in our five year program we estimate in the carrying out of our program that there will be a reduction in the steam coal used by the C.N.R., that the reduction in the maritime provinces will be, roughly, about 280,000 tons annually.

Mr. GILLIS: Annually?

Mr. GORDON: Yes; that is starting from 1951 as a base.

The CHAIRMAN: Mr. Fulton.

Mr. FULTON: The question I wanted to ask is: Based on what you have said and from what I read in the report which is now before us, as to the large initial expenditure, is the initial cost for these locomotives very much greater than that of a steam locomotive?

Mr. GORDON: Yes, I could give you some figures on that.

Mr. FULTON: Would you just give me one for comparison—perhaps you could table that and so not hold up proceedings.

Mr. GORDON: Well, roughly speaking—I haven't got the relative cost of steam—again, much depends on the types of locomotives we are discussing; but a passenger locomotive cost us about \$170,000 each the last time we bought them. I do not know how far back that is, it is some years. To take a rough comparison, these steam locomotives might have cost us around \$150,000, and the probable cost would be \$220,000 to \$250,000 for diesels.

Mr. FULTON: You mentioned a five year utilization program. Do you feel that you are in a position to give us any highlights of that program so that we can check progress from time to time?

Mr. GORDON: Yes; I think I could make a note to mention it in the annual report each year.

Mr. FULTON: Are you in a position now to outline it, without disclosing some information which you would rather not divulge?

Mr. GORDON: If I should start talking about the number of units contemplated in a particular year, that would put ideas into the heads of manufacturers and so on, and they would be down on me like a ton of bricks to get me to buy more or less, as the case may be. But the program we have in mind over a five year period would be, providing we carry it out, as follows: there are four different sections; on the through freight sections we estimate we could use about 350 diesels in our through freight service and thereby get the kind of economy I mentioned; we think we could write that off over a ten year period.

In our switchers, on the same basis of the five years, we think we could put in another 128 units and still get economies. There is an interesting point with respect to switchers. Where we plan to put in diesel switchers is on a 24 or a 16 hour assignment; that is, when we get to places where we have only 8 hour assignments, we think they are not at all as economical as steam. Therefore we will use steam. And as for our way-freight program, it is still under study. That is about the size of it.

Mr. FULTON: I take it that it is the through freight system at the moment which is the basis of your five year program?

Mr. GORDON: For the five year program which we have in mind, at the present trend of prices, it would cost us roughly about \$95 million; and for complete dieselization of the Canadian National, it would cost us about \$500 million.

Mr. FULTON: That is about one-fifth of the complete dieselization cost?

Mr. GORDON: I might say that I would not dream of advising the government to spend \$500 million over a period of any time, whether it be 10, 15, or 20 years, unless I could point out that it was an investment which would pay handsome dividends.

Mr. FULTON: One last question: concerning that \$500 million which is a hypothetical figure, what portion do you estimate would be covered by previous depreciation of steam locomotives, and what portion would you have to go and borrow because of the increased cost factor which you have already mentioned? Can you strike any rough proportion?

Mr. GORDON: I do not know. I would have to think about that. I do not know how to sort that out in my mind because, as far as depreciation is concerned, from an economic point of view, we would have to write off the old steam locomotives.

Mr. FULTON: They are not yet worn out; and you would be writing them off before they were worn out; I see.

Mr. POULIOT: When you made your plans for dieselization, I take it that you considered the question of manpower too?

Mr. GORDON: Very definitely; and as I said before, we have in mind, and we have done, a series of retraining operations for our men, and we have provided classes where these men can go and learn about diesel locomotives; and we hope in that way to be able to derive our manpower requirements from within the existing personnel.

Mr. POULIOT: And where is this retraining being done?

Mr. GORDON: That is being done at our various shops.

Mr. POULIOT: What shops?

Mr. GORDON: Point St. Charles is one.

Mr. DINGLE: Yes, Point St. Charles is one.

Mr. GORDON: Where diesels are being serviced now, we have classes under way.

Mr. POULIOT: And are they the only shops which have retraining for the men?

Mr. GORDON: No. Eventually all the shops will have retraining, when we get on with the program.

Mr. POULIOT: Yes, but did all your men have an opportunity to retrain?

Mr. GORDON: Everybody who wanted to take advantage had the opportunity, yes.

Mr. POULIOT: Were they notified? Were the shops notified accordingly?

Mr. GORDON: It is entirely on a voluntary basis, you understand.

Mr. POULIOT: Yes, but that is not my question. I want to know if all the men working in the shops have been informed that they can be trained at definite points?

Mr. GORDON: I think I see the difficulty. I am talking about a training program which is part of this program but it is not in effect yet.

Mr. POULIOT: It is not in effect yet?

Mr. GORDON: No. We are only starting. We have had some classes but it has not become a general thing yet; because we are not ready to go ahead with the program completely. You see, we have not got delivery of the diesels we have ordered for this year.

Mr. POULIOT: How many erecting shops have you on the system?

Mr. DINGLE: We have them at Moncton, Rivière du Loup, Pt. St. Charles, Stratford, Transcona and Fort Rouge. Some heavy repairs are made at Calder and Port Mann as well.

Mr. POULIOT: Now if dieselization of the system comes into effect which shops will be first affected by that?

Mr. GORDON: The first shops that would be affected would be those in the area where the dieselization program is to be expanded, and one of the first shops that will be directly affected will be Rivière du Loup, Quebec.

Mr. POULIOT: Why is it Rivière du Loup? Why is it not Moncton or any other place?

Mr. GORDON: Because our dieselization program has now reached a stage where the facilities at Rivière du Loup are not going to be required in due course. I do not say immediately, but there will be a gradual reduction.

Mr. POULIOT: Why did you start with the province of Quebec?

Mr. GORDON: Because that is where the diesels are. That is where they are running.

Mr. POULIOT: They are running in Moncton?

Mr. GORDON: Yes.

Mr. POULIOT: Moncton will not be affected?

Mr. GORDON: It will be affected, yes.

Mr. POULIOT: As well as Rivière du Loup?

Mr. GORDON: It will be a matter of time. You see, Rivière du Loup is only equipped to do light repairs on steam locomotives. It has not got the machinery—

Mr. POULIOT: Well, Mr. Gordon, you know very well that Rivière du Loup has been sabotaged by Moncton?

Mr. GORDON: No.

Mr. POULIOT: I will establish that with authority, and I would like to have the general storekeeper at Moncton to prove it in a conclusive manner.

Mr. GORDON: What do you mean by "sabotaged"?

Mr. POULIOT: I mean by "sabotage" many things. I mean by "sabotage" three things: In the first place the machinery that was in Rivière du Loup has been transferred to Moncton. I mentioned it in the House of Commons at the time of Appleton and Barnes when the shops were closed. Mr. Hungerford gave definite instructions to the Rivière du Loup foreman that he could make his choice of the machinery that was required. Then, Mr. Barnes, the superintendent of MP and MC in Moncton came to St. Malo and changed things so they went to Moncton. Mr. Hungerford then gave definite instructions that the machinery should be sent to Rivière du Loup in spite of the change by Barnes. That is a fact that can be verified by anyone in the railway at the time. Moncton wanted to take over everything belonging to Rivière du Loup. If we were dispossessed of our machinery and men in the first place it was due to crooked politicians belonging to both parties during the first war. That, however, is a thing of the past and now we have to consider the present. We have suffered injustice from Moncton all the time. We could not get a fair deal. Now, my points are these. The minister knows about it and he has perhaps sent a copy of my letter to the management. I will give one to Mr. Dingle and to him.

In the first place, there was some machinery at Rivière du Loup that was essentially for the repair of steam locomotives, which was partly transferred to Moncton. In the second place, essential parts that should have been in the store at Rivière du Loup were not available, and, in the third place, when the storekeeper at Rivière du Loup asked the general storekeeper at Moncton for parts that were essential, he had to send even three tracers after his first request to get those things, and most of the time he did not get any answer. But when the superintendent of motive power at Moncton was telegraphed, he got all the parts by the next train, shipped on passenger cars. It shows that the parts were there. There was something wrong with the storekeeper or the office; they were unwilling to send it to Rivière du Loup. This is what we want, to get rid of the Moncton office, and we want to be with the Central Region, and there is a round robin which has been signed by nine members of parliament who do not want to have anything to do with Moncton.

Mr. GORDON: I would like to give you my personal assurance that I have made a careful examination of the various things that you have made reference to and I am perfectly satisfied that none of our Moncton officials, nor indeed any official that I can find, has had any bias such as you mentioned, or has acted unfairly in any way. Now, it is quite possible that on given occasions there would be a shortage of equipment or essential parts at Rivière du Loup. That occurs with every shop in the system. We cannot keep supplies where we are going to have everything at a given place at a given time, but I can personally assure you that it is not done by reason of spite or dislike—it is one of those things which happen in the course of every day life.

Mr. POULIOT: How is it that when the superintendent of motive power was contacted they came the day after?

Mr. GORDON: There have been occasions on which we have taken essential parts from Riviere du Loup and sent them elsewhere. We cannot keep things just as we would like to. Sometimes there will be wrecks or breakdowns in particular shops, where they are in need of a particular part. That can happen at any time.

Mr. POULIOT: You may not admit it without firing those concerned, but I can tell you that we are being dealt with unjustly and unfairly from the start, and I have the idea they fight against us all the time, and I would mention Barnes. That is strictly true and it is a fact, and that is why we do not want to have anything more to do with Moncton under any consideration.

Mr. GORDON: I am sorry you feel that way.

Mr. POULIOT: I am sorry, too, and it is very unpleasant and I do this very reluctantly, but I have to put the facts before you. In addition, I am very sorry, too, because they are in a part of the system that meets with a deficit and we have to pay for it. I find it tough, at a time that we hear so much about civil defence, that we have such a centralization of the railway shops. They should be decentralized, and there should be lines of rail going to Gaspé. We had submarines there during the last war, and there were complications. There was a telephone that was working only part time and it was most unsatisfactory. This German submarine came 30 miles from Riviere du Loup, near Trois Pistoles and Bic. All the repair shops of the railways should be decentralized to a large extent.

Mr. GORDON: Well, that is your view, which I do not share, Mr. Pouliot; and I have the responsibility as the president of this railway, and my responsibility is to determine what is the most value; the best way to manage the railway and particularly the shops at a particular point. If it is shown to me that it is efficient to centralize by reason of the high cost of machinery and so forth, that is certainly what I will do, and the management at this time are following that policy.

Mr. POULIOT: Yes. I know very well, Mr. Gordon, that it is done on purpose, that one may come to a shop and start a repair and they refuse to send the parts and the cost goes higher in the books.

Mr. GORDON: Well, it is quite so and I admit it; but I might say that Riviere du Loup has not got the equipment, either with respect to the type of machinery or the men trained to handle heavy repairs. We have found it more economical to centralize that in Moncton, in the Moncton shops. It is a matter of judgment on the part of management. I ask you to accept it. If you do not think that we are managing the railway efficiently then you are right in so stating. After all, it is my responsibility to determine that.

Mr. POULIOT: I do not think there is any support for the charge that Riviere du Loup is not efficient. And I tell you again that the Moncton people, the office at Moncton, have been unfair to Riviere du Loup right from the start, and they are cursing the French Canadians there; and that is why there have been so many protests from the union which I sent to Mr. Johnson. At the time I didn't keep them, I did not think that I would ever need them.

Mr. GORDON: I am very sorry to hear you make that statement because I can assure you that there is no bias against French Canadians.

Mr. POULIOT: There is no place in Canada where there is so much bigotry as in the Moncton office.

Mr. GORDON: That I must deny.

Mr. POULIOT: You should deal with him.

Mr. GORDON: I have dealt with the matter. I have made a personal investigation into each one of the statements you have made and I am satisfied, as a fair minded man, that your allegations in respect of our Moncton officials are not founded on fact.

Mr. POULIOT: I regret that, but I know them very well.

Mr. GORDON: Then we must agree to disagree, Mr. Pouliot; I am sorry.

Mr. FULTON: I think that there are a lot of things that should be done at Kamloops instead of Vancouver, but I do not think that there is any prejudice against us.

The CHAIRMAN: Shall we go on to the next item, signalling and track equipment?

Mr. CARTER: I have one question I would like to ask on the item now before the committee, but I can ask it tomorrow.

The CHAIRMAN: I would like to finish with this item now so that we will not have to come back to it again.

Mr. CARTER: I understand that dieselization reduces materially the cost of switching.

Mr. GORDON: Did you say dieselization? What does it do?

Mr. CARTER: That it reduces the cost of switching?

Mr. GORDON: In the first instance, yes. It all depends on continued use. Where you get an economic advantage from the use of a diesel is where you can keep the diesel locomotive working all the time. If you can keep it active, working for you; and they can do a very substantial amount of work. The economy in a diesel switcher is that it needs very little maintenance upkeep. It is a productive piece of equipment.

Mr. CARTER: From your experience perhaps you could answer this question: is it your intention to economize by the use of switchers, to economize in cost by their use?

Mr. GORDON: Yes, we have that same thing going on all the time.

The CHAIRMAN: We will meet at 11 o'clock tomorrow morning.

Mr. POULIOT: Just one more item, Mr. Chairman.

The CHAIRMAN: Let us finish.

Mr. FULTON: We will be here until 9 o'clock.

Mr. POULIOT: I would like to have the figures about the probable reduction, or change-over, at Stratford, Fort Rouge and Strathcona. What plans have you made for the change-over there?

Mr. GORDON: It will be generally the same. As I have tried to explain earlier, there will be a gradual reduction in steam locomotive repairs that will be available for these shops, and some of these shops will be discontinued in due course. I can't tell you exactly when. Some of them will be changed over. It costs less for us, for example, to handle diesels than it does steam. It all depends on the type of shop and the work being done there. That is a program which will carry through maybe over the next 20 years. It will be a gradual change-over. It will not be done suddenly, but each one of these shops will be changed. Each one will notice the change.

Mr. FULTON: That will extend over a period of 20 years. I presume that in the next year you will be using more of them?

Mr. GORDON: Oh yes. I am saying that we are making a start now. I am talking about the whole of Canada. There will be some of these shops that will be affected this year.

Mr. FULTON: To what extent?

Mr. GORDON: That will depend on how far we get our diesels, depending on our diesel deliveries. We have diesels on order. We do not know exactly when we will get them delivered; it may be 6 months, it may be a year—as a matter of fact, I do not think any are expected, any more diesels until next Spring on these orders.

Mr. GRACEY: Next year.

Mr. GORDON: It will be next year before we really get enough diesels in other areas to make the changes anticipated.

Mr. FULTON: Mr. Gordon, could you give us any figures showing the effect this change-over will have from points such as Stratford, Fort Rouge and Strathcona?

Mr. GORDON: I can tell you generally that Stratford will probably be the place where we will find it advantageous to concentrate steam locomotive repairs. It is admirably suited for that purpose, and it may be one of the last shops to be affected.

Mr. FULTON: And both will be done; steam repairs and diesel repairs will be made at Moncton and Stratford?

Mr. GORDON: Both will be used in that place, yes.

Mr. POULIOT: Can you tell me when you expect to renovate your plant at Stratford?

Mr. GORDON: Stratford is the place where we will probably find it to be most economical to send most of our steam repair jobs; they will be centralized there for steam only. We do not intend to provide a diesel repair shop at Stratford, and we are not putting diesels in at Stratford.

Mr. POULIOT: So you will have diesel and steam repairs made at the Point St. Charles shops?

Mr. GORDON: That is right.

Mr. POULIOT: And at Moncton?

Mr. GORDON: Yes, at Moncton.

Mr. POULIOT: And the steam repairs will be made at Stratford?

Mr. GORDON: Yes, but with no diesels at Stratford.

Mr. POULIOT: No diesels at Stratford; now what about Fort Rouge and Transcona, when those shops are closed?

Mr. GORDON: There will be a change there; but again it will depend on the rate of dieselization in that area.

Mr. POULIOT: You do not mean that all the steam locomotives from the Maritimes will go all the way to Stratford for repair?

Mr. GORDON: No.

Mr. POULIOT: You will have them repaired at Moncton?

Mr. GORDON: Steam locomotives will be repaired at Moncton.

Mr. POULIOT: And Riviere du Loup will be the first on the list?

Mr. GORDON: Riviere du Loup, as it stands now, is probably the starting point, by reason of its particular situation, its equipment, and its location.

Mr. FULTON: Are there advantages which will accrue to Riviere du Loup as a result of that feature which has been discussed?

Mr. GORDON: The advantages are that as dieselization comes about in that part of the country there will be better service. That is all.

Mr. POULIOT: You know very well that there are many engines which are closer to Riviere du Loup than to Moncton, and which could be repaired at Riviere du Loup.

Mr. GORDON: It is our intention to spin out this program as long as we can because we recognize that we have a duty to the people of any community where we have been located; but it is an unfortunate fact that we have to start somewhere, and it is an unfortunate fact that because of the location of Riviere du Loup plus the type of shop we have there it is going to be one of the first shops affected by the dieselization program. It just cannot be helped.

Mr. POULIOT: Now we have to talk about very sad prospects that may not be probable but that may be possible. If the Moncton shops are bombed, where will you have the repairs made?

Mr. GORDON: Well, that is a hypothetical question!

Mr. POULIOT: It is not probable?

Mr. GORDON: The only answer I can give to you is: not at Moncton.

Mr. POULIOT: You do not believe in decentralization?

Mr. GORDON: No, I do not. I think that it can be demonstrated quite well by our technical officers that, in the light of the heavy power we are now using, and with the great weights that we handle and so forth, it is much more economical to centralize heavy machinery at specific points. If we wanted to expand and put in cranes which could handle heavy locomotives at various points across the country, we might have to buy from 12 to 15 cranes, when one would do, if we centralized.

Mr. POULIOT: Yes; but you would have a crane idle at St. Malo which could be used at Riviere du Loup.

Mr. GORDON: Riviere du Loup is not equipped with a heavy crane which could handle heavy repair jobs.

Mr. POULIOT: Yes, but you have an idle crane at St. Malo.

Mr. GORDON: I do not know what you are referring to. They are not our cranes.

Mr. POULIOT: Where have they been transferred to—the cranes that were at St. Malo?

Mr. GORDON: We are unaware of any cranes belonging to the C.N.R. that are lying there.

Mr. POULIOT: No, but there were big cranes there and I would like to know where they have been sent.

Mr. GORDON: If there were cranes I would presume they have been transferred to Moncton and Point St. Charles.

The CHAIRMAN: Would you be satisfied if Mr. Dingle would look that up and put it on the record as an answer to your question, Mr. Pouliot?

Mr. POULIOT: I am not going to keep the committee any longer but this will be carried on division and I reserve the right to take it up again when we look at the other figures.

The CHAIRMAN: The committee has been pretty patient and you have made a marvellous presentation of your case. Are you not content to leave it at that?

Mr. POULIOT: I leave the matter now on division but I will take it up again when we examine the figures.

The CHAIRMAN: We stand adjourned until 11 o'clock tomorrow morning.

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 29, 1952

C.N.R. Annual Report (1951) and Budget (1952).
C.N. Steamships Limited (1951) and Budget (1952).
C.N.R. Securities Trust (1951).
Auditors' Report to Parliament.
Estimates—Items 485, 486 and 493.

WITNESSES:

Mr. Donald Gordon, Chairman and President;
Mr. S. F. Dingle and Mr. T. H. Cooper, Vice-Presidents;
Mr. T. V. Gracey, Comptroller;
Mr. F. P. Turville (G. A. Touche & Company).

MINUTES OF PROCEEDINGS

TUESDAY, April 29, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock p.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Carter, Dumas, Follwell, Fraser, Fulton, Gillis, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot.

In attendance: The Hon. L. Chevrier, Minister of Transport; and Mr. Donald Gordon, Chairman and President; Mr. S. F. Dingle, Vice-President (Operations); Mr. T. V. Gracey, Comptroller; Mr. T. H. Cooper, Vice-President (Accounting); all of the Canadian National Railways.

The Committee proceeded with the study of the Canadian National Railways Annual Report and the examination of Mr. Gordon.

During the course of the proceedings Mr. Chevrier answered questions specifically directed to him.

At 1.05 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock p.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Carter, Cavers, Churchill, Dumas, Follwell, Fraser, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot.

In attendance: Same as indicated for morning sitting. The Committee completed its study of the Canadian National Railways Annual Report (1951) and the examination of Mr. Gordon thereon. The said annual report was adopted.

The Committee then considered and adopted the Annual Report of the Canadian National (West Indies) Steamships, Limited (1951). During the consideration of the said report Mr. Chevrier and Mr. Gordon were questioned.

The Committee then considered and approved the following estimates referred to the Committee:

Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit

Vote 486—Canadian National (West Indies) Steamships, Limited, Deficit

Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

The Committee then considered and approved the Canadian National Railways and Canadian National (West Indies) Steamships, Limited Income Account and Capital Budget—1952.

Mr. Gordon made an introductory statement on the above and was questioned in detail thereon.

The Annual Report of The Canadian National Railways Securities Trust (1951) was considered and adopted.

The Committee then considered and adopted the Auditors' Report to Parliament (1951) on the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited.

Mr. F. P. Turville of Georges A. Touche & Co., was called, questioned and retired.

Answers to questions asked by Mr. James, Mr. Pouliot, Mr. Dumas, and Mr. Carter were tabled and ordered to be printed as part of this day's evidence. (See also Appendix A—Notes J 56 No. Rail).

The Chairman expressed the appreciation of the Committee to Mr. Gordon and his officials. Mr. Gordon emphasized the steady technological advances being made within the railway industry and expressed the determination of the Canadian National Railways to keep abreast of these changes, and in so doing keep pace with the growth in the Canadian economy.

At 6.00 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m., Wednesday, April 30, 1952.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

APRIL 29, 1952.
11:00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. POULIOT: Before you go ahead: I would like to raise two points of order. The first one is about *Hansard*, our committee *Hansard*. It must be the same as court reports—stenographic notes of the evidence given by witnesses—the only difference is that witnesses are not sworn, don't take the oath. I am not a purist in the English language and my knowledge of English is basic English, and when I use the word "tough" I do not want it to be changed by another word on the copy of *Hansard*; "tough" is said, "tough", and "tough" should be on the record. *Hansard* should have no make-up, no Toni permanent wave. *Hansard* shall be exactly a written picture of what is said in the committee. That is my first point of order.

My second point of order, sir, is about my right to sit here as a member of parliament. I have the greatest respect for you. I will support the chair every time that necessity arises; but yesterday the *Hansard* copy reports you, sir, as having said that the committee had been patient with me. I do not expect the committee to be patient with me, but I expect the committee to be just as courteous with me, which has been done, as I am with others; and it is not exactly the language you have used, but it amounts to nearly the same thing. Now, what I tell you is that I have no prejudice of any kind. I have no animosity; but I am here as a member of parliament to do something about the C.N.R. business; and, until now, and I hope in the future also, I have been a C.N.R. man. But I am here to have information and to make my observations which may be similar to those of the directors, or similar to what the directors could make if they felt like it. And, that being said, I hope that whatever I have to say will be taken as it is said.

The CHAIRMAN: Mr. Pouliot, I am sure that the reporters have noted your remarks in regard to the first point of order, and I would suggest that it might be helpful if you would sit a little closer to the reporters to give them a chance to really get down your questions.

Mr. POULIOT: I am not complaining about the way the questions are reported.

The CHAIRMAN: It is the editing that you complain of?

Mr. POULIOT: I am complaining about the embellishments.

The CHAIRMAN: All right. As to your second point of order; I, also, am not a purist in the English language.

Mr. POULIOT: Oh, you are.

The CHAIRMAN: If the word which I used, Mr. Pouliot, caused you any offence I want immediately to assure you—

Mr. POULIOT: It is not the word, it is the idea.

The CHAIRMAN: —I did honestly feel that the committee was working under pretty strenuous pressure, and I did feel that you were given a full opportunity—

Mr. POULIOT: You did use the word "latitude" yesterday, but it is not on *Hansard*.

The CHAIRMAN: I have not read the record.

Mr. POULIOT: It is that word which I objected to, the word "latitude"; and you were close to the stenographer—if I am out of order, stop me at once.

The CHAIRMAN: No, I do not think there was any latitude, but I do feel that you were given full opportunity to present your views on the matter that was before the chair.

Mr. POULIOT: You know very well, Mr. Chairman—

The CHAIRMAN: I was just making a suggestion; you have always been pretty co-operative with the chair, and I was just making the suggestion that perhaps in view of what had happened you would be content to rest your case there; you made out a pretty full case and you did give all the details—

Mr. POULIOT: Without great success.

The CHAIRMAN: Well, the chair has no responsibility as to the success or failure; but I do think that you were given full opportunity; and I was not trying to cut you off unfairly or to suggest that you were accorded any special privilege because you made the comment you did.

Mr. POULIOT: No, but I will tell you—I am the judge, as every member of the committee is the judge of the opportunity to expound a case. Thank you.

The CHAIRMAN: All right. Now, gentlemen, we are on signalling and track equipment. Mr. Fulton is especially interested in this subject but he has to be absent from the committee for an hour or so this morning. Is the committee willing that this item should stand?

Mr. GILLIS: No, we can discuss it. Mr. Fulton is not the only one interested in it. I think that we might very well go on with it.

The CHAIRMAN: In that event we will carry on. Shall we reserve the right to Mr. Fulton to ask further questions when he comes, Mr. Gillis?

Mr. GILLIS: That is entirely up to you, Mr. Chairman.

The CHAIRMAN: I think that it is up to the committee, and I usually find that most folk respond to good treatment; and I would not want to be accused of being unfair to any member of the committee. We will call the item now, then, and you carry on, Mr. Gillis.

Mr. GILLIS: You see, Mr. Chairman, what I cannot figure out is this; why stand the work of the committee for one member? Would you do that?

The CHAIRMAN: I would, if the committee took that view—

Mr. GILLIS: Well, perhaps you would have some justification. You see, our group in the House is pretty small and we are spread very thin. Mr. Fulton's group in the House is quite large.

The CHAIRMAN: You carry on, and if I appear to be leaning over backwards, you let me know.

Mr. FRASER: You must take into consideration the fact that there are a number of the committees sitting this morning. I think it is very kind of you, sir, to suggest that Mr. Fulton be allowed to refer to this section before us when he returns to the committee.

The CHAIRMAN: Well, Mr. Gillis, let us get on.

Mr. GILLIS: I would like to ask Mr. Gordon this question: is there anything in the budget this year to provide for improvements in the main line between Sydney and Truro? In 1942, when this Canso project was before the Reconstruction committee, that committee recommended at that time the Canso project that is being carried out by the government, or the railway, and the double tracking of that main line from Sydney to Moncton. They suggested particularly that that be done with respect to the line, to that part of the line running between Sydney and Truro particularly. And now, as you know very well, Mr. Gordon, that particular section of line is under a severe handicap in that there are a number of grades and curves in the road there pretty well all the way from Sydney to Truro. I was just wondering if when the C.N.R.

is compiling their budget this year, having in mind the improvements that were going to be made in that crossing and the huge development in traffic that has taken place since Newfoundland came into Canada—and there is quite an extension anticipated both with respect to traffic from Newfoundland and from Sydney—and in the next four years there is going to be perhaps a hundred per cent more traffic on that end of the line than there is at the present time which in its present condition is much to be desired—I was just wondering if, Mr. Gordon, you could tell us what the prospects are in the immediate future as to improvements there, particularly on your main line between Truro and Sydney?

Mr. Donald GORDON, C.M.G., (President, Canadian National Railways): The general circumstance on the Truro-Sydney line is that it would be impossible to provide a faster or a more comfortable service between Truro and Sydney on our existing line because of the grades and curvatures which affects adversely our traffic over that line; and the only way that that could be improved would be by relocating a major portion of this railway on a lower grade and with also a minimum of curvature; and that would cost about \$15 million.

During 1951, extensive work was performed on this section to improve track conditions. New and improved ballast was supplied in 42 miles of track, and 23 miles was relaid with new 100 lb. rail. In 1952, we are scheduled to continue this improvement by laying 17 miles of 100 lb. rail, and by applying 15 miles of improved ballast.

Practically 100% of the line, Truro to Sydney, with the exception of the portion between Linwood and Mulgrave, approximately 13 miles, which will be abandoned with the construction of the causeway across the Strait of Canso, has been relaid with new rail and ballasted during the past 12 years.

The quantity of work performed on this section during 1951 was very much more than the average amount of work performed on the remainder of the Atlantic Region on a mileage basis. Obviously, the section of Truro to Sydney is not neglected.

Passenger carrying cars regularly operated between Halifax and Sydney on trains 5, 6, 7, 8, 9 and 10 are all steel or steel underframe steel plate construction. All the sleepers and the majority of the coaches are air-conditioned.

Mr. GILLIS: Well, that was in effect in the recommendation of the Reconstruction committee in 1947; that it should be relocated and that these grades and curves were a handicap to any improvement. I was thinking more particularly of about one half of the line from Sydney to Truro. I think that Mr. Gordon will agree with me that a considerable part of that line will have to be relocated. And now, we have heard a good deal about double tracking the line in the maritime provinces; and in connection with Nova Scotia, and Newfoundland also, I think that there is going to be a terrific increase in developments in that part of the country; and, even if it did cost \$15 million I think that it is an expenditure that can be justified and we would be doing something for the coming generations. I do not think that at a time when we are talking about the development of the country as a whole, when we are talking about the seaway project and all these things, that a \$15 million expenditure in that part of the country which is going to benefit three provinces is excessive at all.

Mr. GORDON: Well, Mr. Gillis, I am interested in having your viewpoint on that. The only comment I care to make at this point is that the capital requirements of the C.N.R. under present day conditions are so enormous, I am just a little frightened. You realize that when we come to consider the whole situation we get into figures which have a meaning in terms of financing

possibility, which have to be examined and transferred into terms of the capacity of the country to raise the money. And every item of this kind, of course, is just one more addition which you will have to make to a very large program. I do not disagree with you at all. If it were possible to relocate that line nothing would please us better, because certainly it would give us an easier job; but I think these things are relative to what we have to consider, and that we have to consider them in terms of the enormous capital requirements which are confronting us under present day conditions. That phase of the question is still to be settled; but for the present, at least, it would seem to be an inadvisable expenditure.

Mr. GILLIS: I would not expect you to undertake it tomorrow.

Mr. GORDON: No.

Mr. GILLIS: This is the thing which bothers me, and I agree with you with regard to capital outlay over 10 or 15 years, that it will be quite big; but I am not unmindful of the fact that we are bringing 150,000 to 200,000 immigrants into this country each year, building up our population, and they will require services. The thing that bothers me more than that is that in all of this huge capital outlay, instead of bringing benefit into that part of the country it appears to be working to our detriment and to turn us away from any thought of the rehabilitation of the maritimes.

Mr. GORDON: If you will permit me I would like to make further comment in reference to a paragraph in the press yesterday which related to the coal situation in the maritime provinces. I think perhaps the way I expressed it has caused the press to improperly interpret my comments because the statement in this morning's paper is worded to make it appear that I suggested there would be a reduction of 1,200,000 tons of coal over the next five years. That is not what I had in mind at all, and I think that it would be of interest if I just reviewed the situation a little more completely. What I was trying to say is that we have worked out a five year provisional program in regard to dieselization. That is in the form of a program. It is objective in its nature; that we are approaching this situation, approaching this conversion, transitional period, in an orderly, planned sort of way, instead of just in a sort of harum-scarum sort of way. Now, the five year program has been worked out along these lines, we have said that our total coal consumption of the Canadian National Railways would drop at the end of that five year period. I mean, assuming that we get everything done with regard to that five year period we would be using two and a half million tons less coal than we did last year. Now, of that two and a half million tons of coal that we would be burning less per year, it is estimated, roughly, that of that amount about 280,000 tons would have an effect on the maritime provinces section.

Mr. GILLIS: But you said annually.

Mr. GORDON: Yes. Now, that again is qualified with this; last year we had shipments of coal in the Canadian National Railway of 7,149,200 tons; of that, 1,949,600 tons came from Canadian sources and 5,199,600 tons came from United States sources. That means that at the end of five years we will still be a large user of coal, to the extent, roughly, of 4,600,000 tons; but we still buy that coal wherever we can get the best price competitively; so it boils down to a question of price. As I explained to you last year, the economic area with respect to coal is conditioned by where we can use coal in competition with American coal. The amount that we can use varies, depending upon the price of coal quoted in the maritime provinces as compared with the United States; and the economic area as I referred to it, will expand at times and it will contract at times; so that if the producers of coal in the maritime provinces are competitive with American coal the area in which we can use maritime coal

will be greater. Now, in the area that we would expect they would be competing in—we will buy all the coal they can possibly sell us at that particular period.

Mr. GILLIS: Can you give us some idea of the competitive position now as between American and Canadian coal?

Mr. GORDON: Yes, it has worsened lately. I cannot give you the proper forecast for 1952 because we are just in the middle of negotiating. I do not know what the water rate is as compared with rail. But I can tell you this, that the economic area last year covered Sennetere-Garneau, Quebec, and all points east; and the quantity of coal that we required in that area, I am speaking of the C.N.R. of course, was 1,535,000 tons. That is what we needed in that area. Now the coal which we got, the Canadian coal which we got in that area, was 1,045,000 tons. In other words, you can perhaps put it better this way; that there was 490,000 tons of coal that could have been bought and which would have been bought by the Canadian National Railways if the price had been competitive in that area. Now, I hope that I have made it clear to you—it gets a little complicated because there are varying figures here—relating to the shipment of coal, the consumption of coal, and so on.

Mr. GILLIS: You spoke about the competitive position having worsened. That does not speak very well for the mechanization of Dosco, which Dosco has been carrying out?

Mr. GORDON: I would not be prepared to be critical of that. I do not know anything about it. The competitive position has worsened because in the United States the price has dropped while prices here have risen, and that has had an immediate effect on the competitive picture. As a matter of fact it changes from month to month; and the result of that situation is that with regard to coal from the United States viz-a-viz Canadian coal, there will be a lot of American coal bought because of the market fluctuations and the lower prices which prevail there at present.

Mr. FRASER: Would the exchange situation at the present time be a factor?

Mr. GORDON: You refer to the American exchange rate?

Mr. FRASER: Yes.

Mr. GORDON: It would help American coal, yes.

Mr. FRASER: You can buy it cheaper?

Mr. GORDON: We can buy it, if the Canadian dollar remains where it is—that certainly would be a factor.

The CHAIRMAN: Are there any further questions on signalling and track equipment?

Mr. GORDON: If I may add just one more comment? It has a bearing on the competitive price situation. The maritime province coal operators may have the advantage of subventions; if subventions are applicable to the movement of coal under the Dominion Coal Board orders, then the degree of subvention as it applies would have a bearing on the competitive economic area.

Mr. GILLIS: While you are on this subject of dieselization, are there any experiments now being carried on with the turbine locomotive? Are you still interested in that, or have you dropped it?

Mr. GORDON: No, far from it. We are very interested in turbine development and are keeping closely in touch with the experiments which are going on. We are also closely watching an experiment which is going on between our research and development branch and McGill University which relates to the relative economy of oil-fired gas turbines and coal-fired gas turbines. That presents a real possibility and we are watching it with great interest.

The CHAIRMAN: Mr. Pouliot.

Mr. POULIOT: Thank you, Mr. Chairman. Mr. Gordon, would you please tell us whether you are making any provision for the repair of tracks and the extension of the Temiscouta railway.

Mr. GORDON: Yes, I can give you that. When we took over the Temiscouta railway we estimated the total cost of the rehabilitation of this line would amount to \$1,300,000. The particular program decided on at that time was designed to run over a period of five years, and what we have been doing there is to proceed with that program. The total maintenance expenditure during the year 1951 amounted to \$443,392; and the cost of normal maintenance was estimated at \$250,000; and we have in our capital budget submission for 1952 a revote on the Temiscouta account of \$323,000.

Mr. POULIOT: Would that complete the line?

Mr. GORDON: Pardon me?

Mr. POULIOT: Would it complete the line to Riviere du Loup?

Mr. GORDON: The line—that is from Riviere du Loup to Edmunston, and from Edmunston to Connors—yes, it will take care of it.

Mr. POULIOT: No. What I mean is—you say last year the work was done from Edmunston southwards—no, northwards to St. Louis?

Mr. GORDON: Yes.

Mr. POULIOT: And I would like to know if the work will be done from St. Louis to Riviere du Loup this year?

Mr. GORDON: This year—can you answer that, Mr. Dingle?

Mr. DINGLE: The entire program is based on the five year period Mr. Gordon mentioned, and we will do a portion each year. For example, we hope this year to install 10 miles of new rail—it will be part of the program extending over a period of five years.

Mr. POULIOT: It will take you five years to complete it?

Mr. DINGLE: That is correct.

Mr. POULIOT: And from what time does that period of five years start?

Mr. GORDON: Five years from January 1, 1950.

Mr. POULIOT: Oh, yes.

Mr. GORDON: The program started in 1950.

Mr. POULIOT: Yes.

Mr. GORDON: And the entire program is to be completed by 1955.

Mr. POULIOT: I hope that I will live long enough to see the completion of the line.

Mr. GORDON: I would certainly underwrite a life insurance risk up to 1955, Mr. Pouliot.

Mr. POULIOT: Now, Mr. Gordon, have you got something for the improvement of the railway yards at Riviere du Loup?

Mr. GORDON: I was just wondering, Mr. Chairman—this question will arise in connection with the budget. And perhaps you would rather deal with it then.

The CHAIRMAN: Yes.

Mr. GORDON: We will be prepared to go into it in detail on the budget item when we get to that point.

The CHAIRMAN: Are there any further questions on this subject?

Mr. FRASER: Yes, Mr. Chairman. This is under section 15, it is marked here, automatic signals; that covers signals for snow slides, does it? That is what that covers?

Mr. GORDON: No, automatic signals. Block signals are not snow slide signals. They are in the same area as that we had been experimenting with snow slide signalling, but I may tell you that we have pretty well come to the conclusion that the snow slide detectors are not a satisfactory device.

Mr. FRASER: You say they are not satisfactory?

Mr. GORDON: No; as a matter of fact, we have just about come to the conclusion that in some respects they are very dangerous.

Mr. FRASER: Is there any other method which can be employed?

Mr. GORDON: We have just about come to the conclusion that the automatic block is the best method.

Mr. FRASER: That is the type of signal that is mentioned here?

Mr. GORDON: That is right.

Mr. FRASER: Will that automatically check snow slides? Does that?

Mr. GORDON: No, it does not, none of these signal devices do; as a matter of fact, a lot of people seem to have a wrong impression, they seem to have the impression that the automatic block, or centralized traffic control is a nearly fool-proof system. It is not. We had one experience just the other day. There was a washout, a slide, whatever you want to call it; and a section of the road was washed out. A train had gone over it just a short time before, but there was no indication on the signal system that there was anything wrong with the track. The engine had gone off the track but the track had not been broken so the signal still showed green despite the fact that the engine was off the track. So, you see, there is nothing that is absolutely fool-proof.

Mr. FRASER: Of course, there is nothing in the world that is fool-proof. You are absolutely right there. Mr. Chairman, are we also under this section taking up the matter of tracks?

The CHAIRMAN: What do you mean?

Mr. FRASER: For instance, the tracks between Toronto and Peterboro. I was just wondering if anything had been done on that to bring it up to date.

Mr. GORDON: Yes, we have had a great deal of work done on that. There, again, you will see the program we are providing when we get to our budget item.

Mr. FRASER: May I ask a question there?

The CHAIRMAN: Yes.

Mr. FRASER: You are going to revert to this item and allow Mr. Fulton to ask further questions on it?

The CHAIRMAN: Yes, we are going to allow Mr. Fulton to ask his questions when he comes back from the other committee, if the committee permits him to do so.

Mr. McLURE: With reference to the Hillsboro bridge, I understand that it was condemned by the Canadian National Railways, which interrupts the traffic from Charlottetown to Murray Harbour. What further arrangements, if any, are being made with reference to this matter?

Mr. GORDON: The Hillsboro Bridge was condemned not by the Canadian National Railways but by the Board of Transport Commissioners in the first instance as being unsafe for railway operation; and in view of that fact we were prohibited from operating trains across the bridge. There was a hearing held later on by the Board of Transport Commissioners to see whether or not the alternative service which we proposed was adequate; but we have given up operation across the Hillsboro Bridge and we have received authority to discontinue the passenger and mixed train service over to Murray Harbour, for a distance of approximately 11 miles. We are operating an alternative service.

Mr. DINGLE: Yes, in the form of a taxi service.

Mr. GORDON: Across the bridge.

Mr. DINGLE: We use taxis to take the people over from the lower end of the bridge.

Mr. GORDON: We are operating trains to Southport, and the passengers are transported back and forth between there and Charlottetown by taxi, at a cost of 10 cents per trip, for a distance of $1\frac{1}{2}$ miles.

The CHAIRMAN: Are there any further questions?

Mr. FRASER: Owing to accidents when cars bump into freight trains and passenger trains and one thing and another, I was just wondering if any consideration has been given to a different form for the railway crossing signs? This has been brought to my attention. In most cases they just say "railway crossing", but they do not indicate on the sign the direction in which the railway crosses the highway.

Mr. GORDON: I beg your pardon.

Mr. FRASER: The railway crossing signs as presently in use do not show on the sign the direction in which the railway crosses the highway.

Hon. Mr. CHEVRIER: You mean as signs do on the highway?

Mr. FRASER: Yes.

Mr. GORDON: You mean by indicating the angle of the crossing on the sign?

Mr. FRASER: Yes. They do not show the angle at which the train tracks cross the highway. In many cases you might expect it to be at a right angle, but it will turn out to be in an entirely different direction.

Hon. Mr. CHEVRIER: That is a matter to which the Board of Transport Commissioners give consideration continuously. They make representations to us for certain amendments to be made to the Railway Act, but I do not recall if this is one of the things they have taken up. The board has a duty, through its engineering department, to study the matter of these grade crossings, and such things should certainly be brought to their attention.

Mr. FRASER: I know a man who was in a crash of that kind who said that if he had known which way the tracks crossed the highway, he did not think it would have happened.

Hon. Mr. CHEVRIER: Of course, it is pretty hard to foresee all eventualities that are likely to happen at a grade crossing.

Mr. FRASER: It was just an idea and I thought this was the time to put it before the committee.

The CHAIRMAN: Paragraph 17, "Communications". Are there any questions?

Mr. CARTER: I would like to ask a question about our telegraphers in Newfoundland who are also postmasters. I understood that last December a conference was held between the officials of the Post Office Department and C.N.T., at which certain understandings or recommendations were arrived at. I wonder if Mr. Gordon could bring us up to date on whether these recommendations have been implemented.

Hon. Mr. CHEVRIER: I understand there was a meeting between officials of the Post Office Department and our officials of the Department of Transport, with the object of alleviating grievances, and I think they did a pretty good job to alleviate the grievances of these employees. The Post Office Department and the Canadian National telegraphers agreed to inaugurate certain changes. They are as follows:

1. Payment by the Post Office Department to the Postmasters.

The Post Office Department are working out a new plan for the payment of their services as postmasters, based on the volume of mail handled, both incoming and outgoing.

2. Seven days a week on account of C.N.T. business.

The volume of telegraph and telephone business handled by the employees on Sunday is very small, and as an experiment, the C.N.T. will close their offices all day Sunday, and the employees will not have to be on duty on Sunday. If this experiment is satisfactory, it will be extended to include statutory holidays.

3. Relief Operators to enable Regular Operators to take holidays.

In future, these employees will be granted two weeks holidays with pay. The C.N.T. will furnish relief operators. The relief operators will act as postmasters during the relief period, and the Post Office and C.N.T. will share in the cost, with the exception of travelling and living expenses of the relief operators, which will be paid by the C.N.T. The above will apply to some 115 offices where the employee must be a qualified telegraph operator, but will not apply to stations where only telephones are installed, as the operation of telephones does not require special qualifications, and the persons who are acting as postmasters could also operate the C.N.T. telephones.

4. Separation of Postal Services from C.N.T. Services.

At the present time, it is not possible to completely separate the two services, due to a lack of accommodation at these remote points, and in some cases, it would be necessary for the C.N.T. to construct new telegraph and telephone lines for considerable distances in order to locate their offices in separate locations, but it was agreed that the separation of the services would be desirable, and in places where the C.N.T. services can be separated from the postal service without too heavy an expense, separation would be undertaken, but it would probably take at least 5 years before separation of all offices can be completed.

Mr. CARTER: Have these recommendations all been implemented now?

Hon. Mr. CHEVRIER: Yes.

Mr. FRASER: In regard to the telegraph offices, in most cases they are closed on Saturday, and in addition, it is pretty hard to send an express parcel on a Saturday.

Hon. Mr. CHEVRIER: I think we can usually run down to the station in places such as yours or mine, if we need to send a telegram.

Mr. FRASER: Yes, provided somebody is there.

Hon. Mr. CHEVRIER: Surely there is somebody there in Peterborough.

Mr. FRASER: No, that is not always the case in Peterborough on a Saturday. I wonder if there is any way by which a person can get better service on a Saturday or a Sunday? If you have an express parcel which comes in on a Saturday, you simply cannot get it, or if it comes in on a Friday, you cannot pick it up on a Saturday, because they are not open.

Mr. GORDON: You are referring to the first transitional result of the five day, 40 hour week.

Mr. FRASER: That is true.

Mr. GORDON: We have not been able to work out all the quirks in it yet, and there are some cases in which legitimate complaints will be corrected. By and large, in the smaller places, the telegraph stations were closed at least one day a week and now it is two days. But where we feel that the burden of inconvenience to the public is extreme or more than appears to be justified, all things considered, we shall try to make arrangements; but we shall have

to have a period of time in which to work it out. It will take us a year or so before we really know the places where it has gone too far and where we need to given better service.

Mr. FRASER: I was thinking more of urgent telegrams which come in, life and death propositions.

Mr. GORDON: They will get through somehow.

Mr. FRASER: They do in most cases, but there are some cases in which they do not get through.

Mr. GORDON: There are bound to be cases which will have to be worked out; and when we get such major changes as have been imposed by the 40 hour week, it makes it very difficult.

The CHAIRMAN: Is "Communications" carried?

Carried.

"Other Research". Are there any questions?

Mr. POULIOT: I refer to a speech made by the Prime Minister at the Engineering Institute last Saturday in Montreal in which he mentioned that as soon as the cold war is over, we could expect atomic power to progress to the point of meeting civilian needs. I do not know if you attended that dinner, Mr. Gordon?

Mr. GORDON: I am sorry, but I was not able to do so.

Mr. POULIOT: Well, you probably read the report of it.

Mr. GORDON: I did indeed.

Mr. POULIOT: I wonder if the management or the scientists who work for the railways and who are in touch with McGill University are also in touch with the Atomic Board of Control? Are they?

Mr. GORDON: Mr. Fairweather, our vice-president in charge of research, is a very extraordinary individual and he keeps very closely in touch with all these developments. About three months ago he attempted to explain atomic power to me and he managed to make me understand it, so I can assure you that he is very closely in touch with current developments in this field.

Mr. FRASER: He must be good!

Mr. GORDON: He certainly is!

Mr. POULIOT: This is only a preamble to what I am going to ask you. Owing to Mr. Fairweather's learning and interest in scientific matters, can you foresee the date when diesel locomotives will be replaced by locomotives which will use atomic power instead of oil?

Mr. GORDON: I am afraid that is going too far into the future for me to predict. But I will say this: that developments in the scientific world affecting the production of energy are something that we will always keep in touch with; and if it becomes a practical matter, we will have to deal with atomic energy just the same as we deal with diesel engines now. There is a constant stage of evolution, and there is no place where such developments are more apparent than in the transportation field, because energy is one of our most important factors.

Mr. POULIOT: I take it that if atomic energy proves to be practical, you will abandon all the diesel locomotives?

Mr. GORDON: It will depend on the economics of the situation; but what we have to think about here is the cost involved in scrapping existing equipment, and what savings could be made. I think that we are much too far away from the practical appreciation of the costs involved to form any intelligent judgment about the matter yet.

Mr. POULIOT: Well, do you consider it to be possible?

Mr. GORDON: I do not rule out the possibility. I do not rule out anything as being impossible.

Mr. POULIOT: You cannot say then that it is impossible?

Mr. GORDON: No, I cannot.

The CHAIRMAN: Carried.

"Condition of the Property"; paragraph 23, on page 15. Are there any questions?

Mr. McLURE: I would like to ask one question on paragraph 21.

The CHAIRMAN: Very well.

Mr. McLURE: I see there an item mentioned in which the hon. minister and myself are always interested; I refer to refrigerator cars. Are we going to have an experimental installation in the near future of these refrigerator cars?

Hon. Mr. CHEVRIER: Yes.

Mr. McLURE: Well, I do not think there is any better place to make that experimental installation than right down in Prince Edward Island, because we always have that problem with us there, with respect to refrigerator cars. I think the hon. minister will bear me out in that.

Hon. Mr. CHEVRIER: You have a problem, yes.

Mr. GORDON: As regards testing, from the standpoint of making a practical experimental test, the question of where these tests are made is relatively unimportant. The real question is, after testing them, where do we put them into service? We could test them right at Montreal probably more effectively, because we have the staff there and the necessary equipment and so on to perform the test. But if it is a success, I would agree with you that it would be of considerable interest to Prince Edward Island.

Mr. McLURE: Then I shall change my question to the second one.

The CHAIRMAN: Are there any further questions? If not, "Condition of the Property", 23, on page 15.

Mr. KNIGHT: I have a question which relates to paragraphs 24 and 25.

The CHAIRMAN: Very well. We will call it paragraphs 23, 24, 25, and 26.

Mr. KNIGHT: Mr. Wright, the member for Melfort, asked me to bring up this question, as he has been receiving complaints continuously about the state of the equipment on what is commonly called the Prince Albert Division. I too am interested in that part of the country, Saskatoon, Prince Albert, and Melfort. I think it is what they call the P. A. Division. At any rate, the Board of Trade has been making some recommendations either to the government or to the railroad; and I think they have received some assurance that when new equipment becomes available—and I think this applies to passenger equipment as well as to freight cars—they would get some of it. Might I ask to what extent they have been furnished with such equipment now, and if not, what are the plans for getting further supplies?

Mr. GORDON: That question you will find answered in the budget, if it is passenger equipment that you refer to.

Mr. KNIGHT: Partly, at least.

Mr. GORDON: There is no question about it but that we have a large amount of passenger equipment that is not in good shape. There is a backlog which is now being approached in our budget which is coming before you today, where you will find very substantial sums of money for the provision of passenger equipment. Apart from the roomette cars which went into service a year or so ago, some 20 of them, there has been no new passenger equipment going into this railway for at least 10 or 12 years.

Mr. DINGLE: Outside of some coaches.

Mr. GORDON: 1942 was about the last time that any coaches went into service, and then only 25 at that time; so there certainly is a backlog of need, and we are attempting to meet it through these recommendations. And if these recommendations are approved and in due course are voted on in the House of Commons as far as the money to be spent is concerned, the time lag in all that equipment is pretty extreme; it will run into a question of years before we can get new equipment manufactured and placed in service. In the meantime, of course, there is more and more equipment getting into bad shape, and we just have to spread it out as best we can.

Now, with respect to the question of freight equipment, again it is true that quite a lot of our equipment was not in good shape. So we put on a special drive a couple of years ago to catch up on our bad order situation and we have been successful in substantially reducing the percentage of bad order cars from about 8 per cent to about 3 per cent. The program involved considerable money and considerable effort.

Mr. KNIGHT: I presume that the president is talking in a general way of the whole road; but these people think that they perhaps have a particular claim because they think that their division is in particularly bad shape in comparison with a good many other divisions; moreover, they think that their line is a branch which is fairly profitable to the railroad as a whole.

Mr. GORDON: As a general thing, each section of the country thinks that its section is a special section.

Mr. KNIGHT: I make no apologies when asking about this particular branch line on behalf of my friend, because it is one in which he is most interested. I wonder if the president would care to comment on this question: how does he compare, from the point of view of profit, this branch line with other divisions?

Mr. GORDON: Which line are you referring to?

Mr. KNIGHT: I think it is known as the Prince Albert Division, and it runs between Saskatoon, Melfort, and Prince Albert.

Mr. GORDON: We could not. I could not give you at this time any breakdown. I think this was discussed yesterday. We do not keep our accounts in such a way that we can make an analysis of a particular division of that type. It is true that we do it in specific cases when we are considering the abandonment of a line; but that calls for a specific examination.

Mr. KNIGHT: You could not give me the earnings of this Prince Albert division?

Mr. GORDON: Not on a basis that would be intelligible. But I do not recall any specific complaint with respect to this division. Do you recall any, Mr. Dingle? I was asking Mr. Dingle, the vice-president of operations, and he tells me that he has not heard of any specific complaints with respect to the Prince Albert division. But as we get deliveries of new equipment, each division will be treated in as fair a way as possible in relation to the available supply.

Mr. KNIGHT: I have a letter before me addressed to Mr. Percy Wright, who represents that division, from the Minister of Transport; and I also have a letter from the Melfort Board of Trade in which they say:

The Melfort Board of Trade have been agitating for an improvement in running equipment on the Melfort-Saskatoon, and Melfort-Prince Albert lines of the C.N.R. The question is still under consideration with the promise, that when new equipment is available, improvements will be made.

That would indicate, I think, that some communication had gone forward either to the railroad or to the government.

Hon. Mr. CHEVRIER: What happens in a case like that is: that I get the letter from either a member or from a Board of Trade, and I send it over for comment to the Canadian National Railways, who in turn request information from the regional superintendent of that area; so that the reply which you gave us is a reply which was made by the officers of the railway. I think that matters such as this should be handled in that fashion.

Mr. KNIGHT: We have been told that this division is one of the best revenue earners in the province, but we cannot get anything concrete along these lines. But at least, Mr. Chairman, I have raised the matter and I have brought it to the attention of the president. The claim is that their passenger equipment is particularly poor.

Hon. Mr. CHEVRIER: It has been brought to the attention of the management by yourself as well as by myself.

Mr. KNIGHT: They feel that this line justifies somewhat better accommodation.

The CHAIRMAN: Paragraph 27, "Terminal Facilities."

Mr. POULIOT: What can you tell us about the roomette cars on the Ocean Limited? Where do they operate?

Mr. DINGLE: Roughly, they operate from Montreal to the Lake St. John territory, from Montreal to Campbellton and Halifax, through from Montreal to Toronto, Niagara Falls and Chicago, and in Western Canada.

Mr. POULIOT: Thank you.

Mr. FOLLWELL: Under paragraph 23 I would like to bring to the attention of the officials the very rough condition of the road bed between Brockville and Kingston.

Hon. Mr. CHEVRIER: Would you mind extending that down to Cornwall too?

Mr. FOLLWELL: Yes, I will.

Mr. FRASER: I think he should extend it right through to Toronto because there was a passenger on the Flyer yesterday, and he could not even write.

The CHAIRMAN: In the spring time you can expect that right across Canada.

Mr. GORDON: I have heard these complaints, and you will find in the budget the sort of expenditures we are recommending to fix up these particular parts of rough riding line. People seem to forget that any form of movement means vibration, and means some discomfort; and that there is no form of transportation that I know of which does not give you discomfort in one form or another. If you drive your car in the spring, you will find yourself jolted a good deal more than when the frost is coming out of the ground; or if you are on a ship and you run into a storm you get tossed around, you know that these things are normal, and that they are not unusual. So there will be situations, seasonal though they may be, when no matter how good the road bed may be, we will get a rough ride. Movement does mean vibration. And I think that the program which you will find in the budget, which we have for ballasting will indicate to you, when you come to it, that we are pressing as hard as we feel we can, the question of improving particular stretches within the limits of the money available to us, as well as the labour and the materials.

The CHAIRMAN: Paragraphs 27, 28 and 29 "Terminal Facilities". Are there any questions?

Mr. FRASER: Have you also considered the riding qualities of your coaches?

Mr. GORDON: Yes, and I think you will find there has been very considerable improvement in the riding quality of our coaches within the last 10 to 20 years

and when you consider the improvements in roller bearings, gears, and so on, you will find there has been a tremendous technological improvement in that respect.

Mr. FRASER: I refer to the "Chief" which runs from Chicago to Los Angeles; you can ride in the "Chief" without any motion hardly at all.

Mr. GORDON: You must remember that we have equipment which we are running now which is 40 to 50 years old; and you must realize that we take this equipment into our shops and we do the best we can with it; but starting out with old equipment, you are faced with the fact that you have to accept it.

Mr. FRASER: I understand it is the under-carriage which has got to be doctored up?

Mr. GORDON: In most cases, yes.

The CHAIRMAN: Paragraphs 27 to 29.

Mr. POULIOT: Would you please tell me when you are going to answer my question about the 56 pound rails in eastern Canada?

Mr. DINGLE: The answer is being typed, and I expect to present it to you this afternoon.

Mr. GORDON: The question of the weight of rail is not the deciding factor as to whether or not the ride is a good one or a bad one, or whether or not it is an easy riding train. It depends on the sort of equipment and so forth that you operate; and it may be in some cases that a road bed of 56 pounds may do a better job than one of 120 or 130. You cannot judge it from that.

Mr. POULIOT: You must realize that the base of the larger weights, the 120 and 132 pounds is wider, and besides that, in our part of the country we use cedar ties, while in other parts of the country they use hard wood ties; and you must realize that they also have steel plates between the ties and the rail, which makes a great difference; moreover, the base of the 56 pound rail is smaller and narrower than that of the 120 or 132 pound rail, and it cuts the tie by vibration.

Mr. GORDON: That will depend on the weight of equipment that we run over it.

Mr. POULIOT: And in addition, it may open the switch and cause an accident. You must realize that I am not an expert in these matters.

Mr. GORDON: I think you have explained them very well.

Mr. POULIOT: I took the trouble to get some information in order to discuss it properly with you.

Mr. GORDON: Yes. Thank you.

Mr. GILLIS: Before we leave "Terminal Facilities" I would like to ask Mr. Gordon about the policy of the Canadian National Railways now with regard to the use of the Portland, Maine, terminal for the shipment of grain and so on. I remember 4 years ago there was quite a controversy on the matter here, and Halifax in particular was afraid of that policy, that she was going to lose a lot of business. Might I ask to what extent you are using the Portland, Maine, facilities now?

Mr. GORDON: During the last year I went down to Portland, Maine, myself to take a look at it. We have had considerable discussion as to what our future policy should be concerning Portland, Maine; and all I can say at this point is that there is a difference of opinion within our own organization which I have not yet had time really to settle down and resolve. The matter is before the management and at the moment I am not prepared to say what our attitude should be. I would first have to analyse the situation and familiarize myself with it, and I have begun to do so to the extent of having made a trip

down to Portland where I have seen the physical facts of the situation; and if I can find time some day I shall sit down and go to work on it. I can say to you at this time that there is difference of opinion in our own organization, which difference of opinion I shall have to resolve.

Hon. Mr. CHEVRIER: In so far as Portland is concerned, I might say that the Transport Controller has received no requests from the Canadian Wheat Board to ship wheat through Portland. And then I know too that our shipments of wheat via United States ports have decreased considerably over the last period—1941 to 1945. There used to be a considerable amount of Canadian wheat going through American ports, and as a matter of fact the reduction in that amount has been the cause to some extent for the delays at the head of the lakes during the last crop year.

Mr. GILLIS: The reason I asked that question is as you will remember that there was a pretty live session two or three years ago and then this thing seemed to just sort of simmer off. I was interested in finding out if the C.N.R. had changed its policy; they seemed to be very much in favour of it then.

Hon. Mr. CHEVRIER: It was a question of rates at that time, I think.

The CHAIRMAN: The economic environment; page 17, paragraphs 1 to 8.

Mr. DUMAS: I would like to ask a question of Mr. Gordon about the branch line to Barraute. Has there been any request made by the Howard Smith Paper Mills or any other pulp and paper company to extend that line on to Barvue or Bell River onto Kiasuk Falls?

The CHAIRMAN: I think that would come under new branch lines, Mr. Dumas. If we might just carry economic environment, paragraphs 1 to 8:

Carried.

The CHAIRMAN: Now, new branch lines:

Mr. DUMAS: Excuse me, Mr. Chairman, under paragraph 8 there is reference to the spur line from the trans-continental line near Barraute to the properties of the Barvue Mines Limited.

The CHAIRMAN: You are right, that refers to spur lines.

Mr. DUMAS: Yes. The Canadian National is building or has built a spur line of 4.8 miles from the former trans-continental line near Barraute to the properties of the Barvue Mines Limited.

Mr. GORDON: Where did you say that line was?

Mr. DUMAS: From the former National trans-continental line near Barraute into the Barvue Mines property.

Mr. GORDON: Yes.

Mr. DUMAS: Was the cost of that spur line entirely paid by the Barvue Mines Limited?

Mr. GORDON: We made an agreement with them—as I remember the discussion on it—we made an agreement which was generally speaking on the basis that they would assume responsibility for the cost of line over and above the extent to which traffic in our view justified the cost.

Mr. DUMAS: Has any provision been made for extending the line on to Bell River, for acquiring the right of way between the Barvue Mines property and Bell River?

Mr. GORDON: I don't recall if there was—do you remember that Mr. Dingle? I don't believe there was.

Mr. DUMAS: I wonder if you could tell also whether any negotiations were entered into with respect to acquiring a right of way in range 7 in the township of Barraute for the purpose of extending that right of way.

Mr. GORDON: I would have to take that up as a question to be answered later on. Your question was as to, what range?

Mr. DUMAS: My question was have there been any negotiations entered into with Mr. Therrien in respect to acquiring a right of way through range 7 in the township of Barraute for the purpose of acquiring land required for the right of way.

The CHAIRMAN: The answer to that question will be printed as an appendix, Mr. Dumas.

Mr. DUMAS: I would like to have that.

The CHAIRMAN: Now, new branch lines—paragraphs 9 to 11.

Mr. FRASER: Under that section, Mr. Chairman, I would like to ask Mr. Gordon what is meant by the future growth of this section, in consideration of the financial considerations involved.

Mr. GORDON: What paragraph is that?

Mr. FRASER: The last paragraph of that section on new branch lines.

Mr. GORDON: You mean the Kitimat line?

Mr. FRASER: Yes.

Mr. GORDON: That is the same general thing as we do as a matter of policy in any of these extensions, and that is we have the aluminum company requesting a branch line built in there; we have to figure out with them what we can see in the form of traffic, they have undertaken to provide that traffic up to a minimum, indicating an amount that will be forthcoming, and if it is not forthcoming they will reimburse us.

Mr. FRASER: They reimburse you?

Mr. GORDON: In other words, they guarantee that there will be a minimum amount of traffic available to the line over a period of years; if that fails to materialize then under a formula which we have worked out, they will reimburse us for the difference.

Mr. FRASER: You figured out what you expect your overhead would be for the 10-year period?

Mr. GORDON: That is right, what it works out at.

The CHAIRMAN: I should call your attention to the fact that there will be legislation on this point.

Hon. Mr. CHEVRIER: It is on the order paper now.

The CHAIRMAN: And perhaps it would be wise to wait until then.

Mr. FRASER: We might not get all the information we need.

The CHAIRMAN: Oh yes.

Mr. DUMAS: Mr. Chairman, I would like to ask a question, if it is in order, regarding the extension of the line from Barraute to the Barvue mines, the extension of that spur line further east. Has there been a request by the Howard Smith or any other pulp and paper company for carrying the extension of that line on to the Bell River?

Mr. GORDON: You mean, recently?

Mr. DUMAS: Well, within the last year.

Mr. GORDON: Not that I recall.

Mr. DUMAS: I refer to the extension of that line east to Bell River.

Hon. Mr. CHEVRIER: Is that the same line?

Mr. DUMAS: Yes, it is the same line.

Hon. Mr. CHEVRIER: And that goes from the old National Trans-Continental main line into the Barvue mines.

Mr. DUMAS: Yes.

Hon. Mr. CHEVRIER: Parliament approved the building of that line from Barraute into the Barvue mines and further east, in all it was to run some 35 miles, as I recall it, and the Canadian National are the people who have been appointed to build it. What you want to know now is whether there have been any requests for the building of that line further east?

Mr. DUMAS: Yes.

Hon. Mr. CHEVRIER: I am not aware of any. The Howard Smith people did support the original application, but so far as I am aware there have been no further requests from any of the pulp and paper companies for an extension of that line.

The CHAIRMAN: Are there any further questions on this section?

Mr. KNIGHT: Under new branch lines I would like to ask Mr. Gordon what progress has been made on the Lynn Lake extension to which reference was made.

Mr. GORDON: That is pretty well covered in the report.

The CHAIRMAN: If you will read paragraph 10, Mr. Knight.

Mr. KNIGHT: Especially in regard to the last three lines of paragraph 10: "under an agreement with the Sherritt-Gordon Mines Limited, the objective is to have the line ready for service by October 1953"; does the progress made up to date justify the production, or the early production; and, will the line be ready?

Mr. GORDON: We hope the contractor will be able to meet that date. I have had a recent discussion with him, and while he got away to a slow start recent developments are very satisfactory and we have every confidence that he will meet that date.

The CHAIRMAN: Other transportation developments—paragraphs 12 to 14:

Mr. CARTER: Mr. Chairman, I wonder if the minister or Mr. Gordon could give me any information as to the progress on the new ferry for service between Port au Basque and North Sydney?

Hon. Mr. CHEVRIER: Well, the contract for the ferry has been given to Canadian Vickers, and they are proceeding on schedule with the production of it. Meanwhile, the terminals are being constructed. Contract has been let for the terminal at north Sydney and for the terminal at Port au Basque. The north Sydney terminal is almost completed—that is entirely completed, so I am informed—and the Port au Basque one lags behind the other. The object is to complete the terminals and the ferry at the same time so that all three can be put into operation at once.

Mr. CARTER: I was wondering if the keel of the ferry had been laid yet?

Hon. Mr. CHEVRIER: Not yet.

Mr. CARTER: Mr. Chairman, I believe there is a similar type of ferry running between Tormentine and Prince Edward Island.

Hon. Mr. CHEVRIER: It is not the same kind of a ferry because it is a longer crossing, but it is built for the carrying of freight cars and passengers—I am informed that it does not carry freight cars—

Mr. GILLIS: Mr. Gordon, might I ask you in connection with that Canso causeway if you have anything in the budget for the terminals at Mulgrave?

Mr. GORDON: Yes, I believe we have.

The CHAIRMAN: We will come to that in the budget.

Mr. GILLIS: Might I ask the minister if any contract has been let for that project as yet, or if you have any applications?

Hon. Mr. CHEVRIER: No, they have not been let but tenders have been advertised for and the date of expiry I believe is the 3rd of May; no, it is the 13th of May.

Mr. GILLIS: Have you had any applications for it?

Hon. Mr. CHEVRIER: There have been many applications for it. I am pleased to say that there are a very large number of contractors exceedingly interested, at least from the demands which they have made for tender forms. I am now informed that there are 34 such contractors making application.

Mr. GILLIS: And the closing date for receiving tenders is May 3?

Hon. Mr. CHEVRIER: No, May 13.

Mr. GILLIS: That it should be under way by June 15?

Mr. GORDON: If I may reply to your direct question as to the construction of the approaches leading up to the causeway, contracts on this account have not been entered into, but at the rate at which our surveys are going ahead it is expected that we will be ready to call for tenders for this grade late in 1952 so that the whole thing may be completed by December of 1954.

Mr. GILLIS: Thank you very much.

Mr. McLURE: Will there be any difference in the freight rate when the causeway comes into operation?

Mr. GORDON: It will not affect the freight rate as far as I know.

Mr. McLURE: I thought that when the ferry was taken over and the causeway came into operation there would be a lower freight rate.

Mr. GORDON: It is not intended to affect the freight rate.

Mr. GILLIS: Will it be a toll crossing?

Hon. Mr. CHEVRIER: That will be a matter for the provincial government to determine, but it is my understanding that it would not.

Mr. MOTT: I would like to ask Mr. Gordon if there have been any negotiation with the provincial government acting with the Canadian National Railways for a branch north there on across Lillooet.

Mr. GORDON: Negotiation? In what way?

Mr. MOTT: I mean in connection with the Canadian National Railways carrying it out.

Mr. GORDON: The connection with Prince George, of course, has been worked out.

Mr. MOTT: Not that one, I mean the other one, going from Squamish northward, on the P. G. E.

Mr. GORDON: No, we are carrying on no discussion on that.

The CHAIRMAN: Are there any further questions?

Mr. FOLLWELL: I notice under paragraph 13 it says: "the new ferry will be of a special design, and will employ a type of portable freight container, adaptable for use on Newfoundland railway equipment, which will not only speed up freight handling but reduce loss and damage resulting from transshipment between boat and rail." I am wondering if you will explain that "portable freight container"?

Mr. GORDON: Yes. As you remember the Newfoundland railway is a narrow gauge.

Mr. FOLLWELL: Yes.

Mr. GORDON: We have especially designed the ferry to make a special recognition of that fact and we will switch a load from the main line on to a special type of container which will be in fact a box car which can be lifted right off the ferry and put on to the narrow gauge railway car without unloading and rehandling. We believe that we have struck a device there which will reduce very much the loading and handling costs and will speed up the service. But its purpose is to recognize the difference between standard and narrow gauge operation such as we have on the Newfoundland railway.

Mr. FOLLWELL: I was just interested to see why this refers to a new type of container guaranteed to save handling costs.

Mr. GORDON: That is built especially for Newfoundland.

The CHAIRMAN: The St. Lawrence seaway project; paragraphs 15 and 16. Shall they carry?

Carried.

The competitive framework, paragraphs 17 to 22 inclusive.

Mr. CARTER: Mr. Helme, the member for Prince Albert who is unavoidably absent today, has asked me to ask a question on his behalf. The first question is to Mr. Gordon: would the proposed new low rates, or agreed charges, on petroleum products in western Canada show any substantial financial gain to the railways?

Mr. GORDON: Well, yes. Before we could put in an agreed charge, we have to demonstrate before the Board of Transport that it is compensatory rate; that is, that we will make some money out of it. We cannot put in an agreed charge, a base rate, which will not give us back our dollar so to speak and something over.

Mr. CARTER: And the second question is: would the proposed new low rates be available to all companies, large and small?

Mr. GORDON: Only the ones that we have an agreed charge with.

Mr. CARTER: Oh, I see; yes.

The CHAIRMAN: Highway competition:

Mr. CARTER: Just one more question, Mr. Chairman; if I may.

Mr. GORDON: I suppose I should add to what I have said that while these rates are restricted to companies with whom we have made arrangements, they are also open to any company who makes an application before the Board of Transport asking that they should be made applicable to them in the same shape. I think that is what he is after.

Mr. CARTER: The third question is: could the minister say if representations from the trucking industry will be heard by the Board of Transport Commissioners?

Hon. Mr. CHEVRIER: The answer to that is, no; and I think the reason for it is that the trucking industry requested that the Transport Act be amended to include them in the definition carriers; and we gave it careful consideration and decided against it because to have decided favourably would have been, I think, an infringement to a large extent on provincial rights; and then, decide the question recommended by the Royal Commission on Transportation.

Mr. FULTON: May I ask the minister a question on that point? I understood you to say that you had already made a decision.

Hon. Mr. CHEVRIER: Yes.

Mr. FULTON: Is that decision only in so far as trucking within the province is concerned, or does it extend—

Hon. Mr. CHEVRIER: I think that you have misunderstood me, or possibly I did not make myself clear with reference to the decision. I said that we had not made a decision on the question of trucks. What we did make a decision on was the request of the truckers of Saskatchewan to be included under the definition "carriers" in the Transport Act; and we decided that to decide that question in the affirmative would be to decide the larger question of taking over trucking internationally and interprovincially.

Mr. KNIGHT: On a point of order, Mr. Chairman; are we now on highway competition?

The CHAIRMAN: We are at "the competitive framework" and just happened to spill over into "highway competition"; both of these headings might be taken together; so, go ahead with your question.

Hon. Mr. CHEVRIER: The only thing that we decided was the question having to do with including them in the definition.

Mr. FULTON: You have not reached any decision yet as to whether or not trucking in the interprovincial and international field should or should not be included under the jurisdiction of the Board of Transport Commissioners?

Hon. Mr. CHEVRIER: We haven't concluded it.

Mr. FULTON: You have not concluded it?

Hon. Mr. CHEVRIER: No.

The CHAIRMAN: Mr. Knight.

Mr. KNIGHT: Just one other question: Is there at the present time an application from the carriers, or the Automotive Association, before you for consideration on that point?

Hon. Mr. CHEVRIER: No, not that I am aware of. The only request they made was to have the Transport Act amended to include them as carriers so they could make representations to the Board of Transport Commissioners.

Mr. FULTON: That is, there was just the one specific application from the province of Saskatchewan?

Hon. Mr. CHEVRIER: No, that was from a dominion-wide body.

Mr. FULTON: That is the point I am making. Perhaps I have misunderstood. I thought from the answer the minister gave earlier, I understood the question to include trucking generally, both in the interprovincial and the international field, coming within the jurisdiction of the Board of Transport Commissioners—that that point had not been decided.

Hon. Mr. CHEVRIER: That is right, perhaps I should have said that. However, representations were made by both at a later date to the government; I mean, representations were made by the Canadian Automotive people, with particular representation by that organization from Saskatchewan; and they requested that an amendment be made in the definition of carrier, that it be changed to include them. All of this has to do with agreed charges.

The CHAIRMAN: Mr. Knight.

Mr. KNIGHT: Mr. Chairman, I thought that would come up under paragraph 23.

The CHAIRMAN: I think the committee might take paragraphs 17 to 30 inclusive in one group, and they are now open for discussion.

Mr. KNIGHT: Well then, I can say now that that agreement in western Canada, particularly in Saskatchewan—the agreement between the railroad and Imperial Oil—has caused a good deal of concern to the trucking people. A great many of these men are in business in a small way, with one truck or two; they are veterans usually, and in most cases the trucks were purchased out of their grants; and I am concerned about the effect of that agreement on that trucking industry, if we might consider that; and I think it is going to be an increasing, a terrifically difficult problem. I endorse this paragraph in the centre of section 24 which says: "In this connection the most promising field is to be found in providing supplementary or substitute services on the highway co-incident with the curtailment of rail operations on branch lines where, as a permanent condition, traffic revenues fall short of meeting direct costs. In general the policy of the management is to employ road transport as an adjunct to basic rail services. Wholesale and indiscriminate entry into bus and truck operations is not contemplated." I was going to ask Mr. Gordon, first of all, to what extent the railroad itself is indulging or participating in the trucking business.

Mr. GORDON: You would like to have an outline of the points at which we operate trucks and buses?

Mr. KNIGHT: Well, largely to what extent is what I had thought rather than the localities.

Mr. GORDON: I think that I can answer that by saying, not to a great extent. I can give you the details here if you want, as to where we are operating. We have in operation in the Atlantic region the Mackenzie Coach Lines which connects up St. Stephen, St. John, Halifax and Spring Hill. That covers six buses. Then we have another service, which covers 12 trucks. Then, in the central region, at the lake head, Fort William, we have four buses in passenger service; and we have at various points around here in Ontario other services, mostly where other services are not available such as in northern Ontario. We have 5 trucks, 2 semi-trailers and 2 trailers; that is, covering L.C.L. freight. On the Niagara, St. Catherine and Toronto railway we have in passenger service 68 buses which service Niagara Falls and St. Catharines city. Then we have a small service of trucks and trailers running between Belleville and Picton. Then we have another service at Oshawa City where there are 29 buses in service; and then at various other points we carry L.C.L. freight, and have 20 trucks in that service. We operate in total mileage of bus operation, 1,126 miles; 779 miles of L.C.L. and 491 miles of express, and 310 miles of express and L.C.L. combined with express.

Mr. POULIOT: Then, Mr. Gordon, your Mackenzie Coach Line would be an international operation, would it not?

Mr. GORDON: No, we operate the line from St. Stephen and the Maine Central Railway takes over the operation from there.

Mr. POULIOT: That is between St. Stephen and Sydney?

Mr. GORDON: That goes between Glace Bay and St. Stephen and also operates to Springhill.

Mr. POULIOT: But it does not go further on to Boston?

Mr. GORDON: No, not under our operation. We stop operation at the border and the Maine Central Railway takes over the operation from there on. We only operate in Canadian territory.

Mr. POULIOT: Do you not operate any bus lines in the province of Quebec?

Mr. GORDON: No, I do not think we have any in Quebec—yes, we have one truck service having to do with air express which operates between Montreal and Dorval. That is all we have.

Mr. POULIOT: And then, Mr. Gordon, have you any interprovincial buses, or direct lines?

Mr. GORDON: No, we would not have any interprovincial at this time—with the exception of the Mackenzie Bus Line which runs across three provinces; yes, there is the Mackenzie Bus Line, they are the only ones, and they go through Nova Scotia and New Brunswick.

Mr. KNIGHT: Just one general question regarding this point. Would it be correct to say that the trucking business, the trucking industry is affecting railroad business?

Mr. GORDON: Very definitely, yes.

Mr. KNIGHT: And that would be a problem, that is more likely to increase the railroad's difficulties?

Mr. GORDON: That is correct.

Mr. KNIGHT: I have some few observations relative to what happened in Britain in this particular regard. Here one hears that your railroad is putting out of business a great many truckers, particularly with regard to long hauling. In Britain the reverse is true, that trucks are not putting the railroads out of

business and they are looking forward to going further. I was wondering if you would care to comment on the need for some sort of overall transportation policy in this country that would co-ordinate these services for the good of the public and preserve the rights of the truckers as well as of the railroads. In the Old Country they can take a trip by railroad and you can come home by bus if you wish to. I would like to have your comment, if you don't mind.

Mr. GORDON: I think this matter was pretty well dealt with before the Royal Commission on Transportation. It is a pretty big subject.

Hon. Mr. CHEVRIER: I was going to say this, that more co-ordination is certainly a desirable thing. Highway transportation does not come under the jurisdiction of the federal government, and the only thing that does come under the jurisdiction of the federal government is interprovincial and international traffic. In England you haven't got that position at all, it is all under one government; whereas, in Canada it is sometimes under a number of governments.

Mr. KNIGHT: I quite realize that. What I am wondering is if it would not be better if somehow the federal government had complete jurisdiction over the general picture; otherwise—I mean, is there any other solution to the problem? Is there an alternative solution?

Hon. Mr. CHEVRIER: We did try a solution in 1935—in 1938 I am told—when the then Minister of Transport introduced a bill in the Senate which later had to be withdrawn by which he attempted to control international and interprovincial traffic. The provinces raised such serious objections through their Ministers of Highways—and the trucking industry as well—that I am informed that the minister decided to withdraw the bill. Now the royal commission has recommended exactly what was done then, which was simply an amendment to the Transport Act; and, until we have had an opportunity of studying that recommendation, which we haven't yet, I do not think it is possible to make a decision on it. I think the truckers are willing to be placed under the supervision of the Board of Transport Commissioners and I think there should be some basis of agreement between the railroads and the truckers; and certainly, they don't want to put them out of business. The question is not whether they will be put out of business.

Mr. KNIGHT: I know one or two who have gone out of business now.

Hon. Mr. CHEVRIER: I do not know why they have gone out of business because nothing has been done which would put the truckers out of business. As a matter of fact, the Board of Transport Commissioners who have to decide the case, when the railway made its application for the agreed charges to be put into effect—that is when representations were made to us and it was decided to fix a date for the hearing of this case at Regina; and the Transport Act clearly states that any party feeling himself aggrieved, either a shipper or a carrier, may make representations against the approval of an application for an agreed charge. And the Transport Act further sets out that an agreed charge—the effect which the making of that agreed charge, or the fixing of the charge, is likely to have or has had on any revenue of the carrier—and so on; and it must be able to satisfy the transport commission as Mr. Gordon has said, that the rate will be compensatory. I do not know what the position in Saskatchewan is but I would not attempt to comment on it. All I can say is that we did not know of any of these people having been put out of business, more particularly because the case has not even been heard.

Mr. GORDON: I would like to make this comment; from the standpoint of the railway versus commercial trucking the dice is loaded against the railway right from the start.

Mr. FULTON: Mr. Chairman, I would like to add something to this discussion. I have before me an issue of the Motor Carrier, a magazine published

in British Columbia, by the Columbia Trailer Company Limited. This was sent to me by the publisher because in an interview I had had with him I expressed interest in the matter previously. It was sent down to me last session but it was too late to be used in the committee last year. But it contains an editorial, which I think is very interesting, written by a prominent member of the Canadian Automotive Transport Association to the provincial body. His letter makes a very complimentary reference about a statement made by Mr. Jefferson, traffic vice president of the Canadian Pacific Railway, and also a statement made by Mr. Gordon, commenting on their efforts to end the bitterness which had arisen between the trucking interests and the railways; and then he goes on to review the history of some of this controversy; and it ends up in this way:

But in the ensuing furor of brickbats hurled from the newly-opened public relations office of the CATA, relations were soon ruptured. Railway entry into the motor transport field was fought. Railway-owned truck lines, through their provincial organizations, were barred from participation in CATA affairs. Federal control of international and inter-provincial transportation, long sought by the railways and recently recommended by the Royal Commission on Transportation, was fought, and is still being fought, with 'every resource' at the CATA's command.

In such an atmosphere, harmony between rail and highway interests serving Canada was short lived. Except on the west coast, where railway and truck brass still tackle mutual problems in a spirit of friendly competition and rail-owned truck lines are welcomed on the membership rolls of the Automotive Transport Association of B.C., both sides retired to their arsenals to grind out fresh news releases damning their competitors.

Now, climaxing long years of monotonous rabble-rousing by both forms of transportation, Canada's transcontinental railways have indicated a willingness to co-operate with motor transportation interests in the solution of this nation's complex transport problems.

The interests of the people of Canada transcend the selfish objectives of any unit of the transportation system. If the efficient and economical movement of men and merchandise can be bettered through mutual co-operation, it is the duty of the Canadian Automotive Transportation Association to accept the railways' invitation to assist in the "promotion of sound business practices."

I wrote to the editor of the magazine and said that I was very interested in this particular letter and asked if I had his permission to use it as giving the view point of his organization at any rate, and he said I could use it; and doing so I thought it might contribute perhaps to a more friendly feeling and a better understanding of the problem confronting both forms of transportation, that they had much more in common than they thought they had in the way of conflicting interest.

Hon. Mr. CHEVRIER: I understand that since the date that letter was written—it was written in May of 1951, was it not?

Mr. FULTON: In May of 1951, yes.

Hon. Mr. CHEVRIER: Yes, May of 1951. I understand that since that was written the attitude of the Canadian Automotive Transport Association has changed considerably. I do not have any authority for saying this, other than what I have been told; namely, that the Automotive Association would now be not too unfriendly to the taking over of interprovincial and international traffic, or both of them, by the Federal government.

Mr. FULTON: I am glad the minister said that. I was going to go further and say that I think credit must be given to the officials of both railways—Mr.

Gordon is entitled to his share—and the Automotive Transport Association and various groups concerned, for the efforts which have been made to bring about a better understanding. Now, that being the case,—I want to go back to the suggestion that the jurisdiction for at least interprovincial and international traffic, so far as trucking is concerned, should be placed under the Board of Transport Commissioners. I understand that he has not received any reply from the B.C. delegation—that is why I wanted to be fair on the position with respect to the decision which the minister said had been made recently, that they could not accede to the request.

Hon. Mr. CHEVRIER: There was no decision on that point at all, not on the point you are discussing now.

Mr. FULTON: I might go back over it again, but if I were to do so I might only confuse myself again.

Hon. Mr. CHEVRIER: It is under study.

The CHAIRMAN: Before we leave branch lines, is there anything else anybody wants to ask about them?

Mr. KNIGHT: Mr. Chairman, I would just like to have one last word. In view of Mr. Gordon's statement that he considered that the dice were loaded against the railways in this matter, I want to make it perfectly clear that I do not want the dice to be loaded against the Canadian National Railways.

Mr. GORDON: I am glad to learn that. I thought from your views you were of the opposite opinion.

The CHAIRMAN: Shall that section carry?

Mr. KNIGHT: Just a minute now. Putting it precisely, I do not want the dice necessarily to be loaded against these individual truckers. And that is my reason for saying that I think in the near future we will have to work out some form of co-ordination between these two forms of transportation.

The CHAIRMAN: Shall the item carry?

Mr. FULTON: Is the minister in a position to say whether we might expect some legislation arising out of the consideration which you have given this matter?

Hon. Mr. CHEVRIER: If I were to speak again, I would say no.

Mr. JAMES: I would like to ask Mr. Gordon, or perhaps I should ask the minister, whether there has been any development rising out of this truck situation—

Hon. Mr. CHEVRIER: That was the item which Mr. James discussed with me earlier I think. Is that what you are speaking about, Mr. James?

Mr. JAMES: Yes, but I don't want to be misunderstood.

Hon. Mr. CHEVRIER: I had forgotten precisely what the matter was but I recall that I wrote to Mr. James about it. I would be glad to look into it further.

Mr. FOLLWELL: I would like to ask Mr. Gordon about the trans-Canada highway and truck competition which might develop over that. I would just like to ask Mr. Gordon if he wishes to comment on the nature of the truck and bus competition initiated for the purpose of that operation.

Mr. GORDON: Mr. Chairman, I prefer not to answer that question.

Mr. FOLLWELL: All right, sir.

Mr. FRASER: I would like to ask a question on the competitive frame-work. Respecting the oil pipe line contemplated between Toronto and Montreal, that will not affect the railways at all, will it? Owing to the fact that in most cases deliveries have been made by boat. Is that not the situation at the present time?

Mr. GORDON: That is my general understanding, that it will have very little effect on our traffic.

Mr. FRASER: It will not affect you hardly any?

Mr. GORDON: No.

Mr. FRASER: Another question I want to ask comes under paragraph 18, mail traffic competition with the air lines.

Mr. GORDON: Did you say number 18?

Mr. FRASER: Yes, number 18.

Mr. GORDON: On page 18, yes.

Mr. FRASER: Page 18, paragraph 18.

Mr. POULIOT: That relates to air mail, and that reduced the revenue you produce.

Mr. FRASER: No, it takes it out of one pocket and puts it into another—or, out of both pockets. What effect does that have on the C.N.R. in regard to this?

Mr. GORDON: You mean the competition of the air lines?

Mr. FRASER: Yes.

Mr. GORDON: It has had a considerable effect on our passenger business.

Mr. FRASER: I mean, in regards to mail, that is one of the important things they have.

Mr. GORDON: Well, I do not know how to answer that; the fact is that the T.C.A. carries mail that if they were not carrying we would carry.

Mr. McLURE: Mr. Chairman, I have just one point: has the Canadian National Railways acquired by purchase a bus and truck franchise in Prince Edward Island?

Mr. GORDON: We have discussions going on with Prince Edward Island now in respect to getting permission to run both buses and trucks, and that has been referred by the premier of the province to a special committee for discussion.

Mr. McLURE: Yes?

Mr. GORDON: They have not responded to our specific application which has been before them now for some considerable time.

Mr. McLURE: You had better not quote what he said about the railway either.

Mr. GORDON: I would not mind quoting him on that any time.

Mr. McLURE: The Canadian National Railways are now operating a truck and bus service in Prince Edward Island?

Mr. GORDON: A truck service.

Mr. McLURE: A truck service only?

Mr. GORDON: Yes, just on L.C.I. and express; but what we are asking for is permission to operate both trucks and buses giving them a coordinated railroad and bus and truck service which we believe would be a much better service for the people of P.E.I. and at the same time reduce our cost. We have undertaken too that in the event that weather conditions become difficult, for instance during certain portions of the winter, sufficiently so as to interfere with our operations, we would restore the train service. We have manifested reasonable patience and we are hopeful that before long we will have a decision. As I said, the matter has been referred to a special committee of the legislature, as I understand it—I do not know what the technical term is—oh yes, it has been referred to a select standing committee to deal with the matter generally and we are expecting to make representation to that committee at an early opportunity.

Mr. FOLLWELL: Is that the only place where you intend instituting such a joint service?

Mr. GORDON: No, we have quite a number of places that we have under consideration to see whether or not we can make use of this coordinated service.

Mr. FULTON: I would like to ask a question about accounting. You will recall that the royal commission opposed—rather the royal commission recommended a unified system. I would like to ask you what progress has been made recommending the introduction of a uniform system of accounting.

Hon. Mr. CHEVRIER: May I say, sir, that we amended the Railway Act in the last session to cover that point and the Board of Transport Commissioners were given instructions to deal with that matter which was recommended by the Royal Commission on Transportation. My information is that they have undertaken the implementation of that section of the Act; they have taken on one accountant some additional staff to deal with that question.

Mr. FULTON: You mean the Board of Transport Commissioners have?

Hon. Mr. CHEVRIER: Yes.

Mr. FULTON: Has it got it down to the point where the railways, either one of them, have been asked to make any changes in their system as a result of the board's action?

Hon. Mr. CHEVRIER: I do not think it has yet.

Mr. GORDON: We have been invited by the Board of Transport Commissioners to study the problem with them and it has been discussed with both railways, but it is only in the discussion stage yet.

The CHAIRMAN: If there are no further questions on that section we will go on to employee relations.

Mr. FOLLWELL: In regard to pool trains; I presume co-operation continues but there will be no change in that situation?

Mr. GORDON: I would not say that. We have as a matter of fact a joint committee between the railways which are very carefully studying that problem and I am hopeful that we will be able to extend our pool operation.

Mr. FOLLWELL: One further question the rank and file of the employee to not seem anxious to have the C.N.R. eliminated on any of these runs.

Mr. GORDON: There is that attitude on the part of both railways. The question of prestige particularly is involved, where the employees of each railway much prefer to have a particular train recognized as being their train. But I have gone into the question sufficiently to satisfy myself that economies are possible in some of these pools are such that we cannot justify allowing prestige considerations to prevent us from making that saving. It will still be the case that there will be employees feeling that they would much rather not be contaminated by the other railroad.

Mr. FOLLWELL: That is right.

The CHAIRMAN: If there are no further questions shall we carry that section?

Carried.

The CHAIRMAN: Now, employee relations:

Mr. KNIGHT: Mr. Chairman on employee relations and the effect of of pensions on employees. I have often taken up the case in the House of Commons on behalf of employees who are pensioned at the rate of \$25 a month. I am very glad to notice this line in paragraph 40: "a revision and improvement of the Canadian National pension plan has been made effective as from January 1, 1952." I admit that I am glad of it. That refers, however, only to those who are now working, and I am concerned about the plight of

those people—particularly in regard to the increased cost of living—those who happen to have a pension of \$25 a month and that only; and I would like to get from Mr. Gordon his idea of the division of responsibility in regard to this matter. We have had some difficulty in the House between the government and the Canadian National Railways in this regard; and our information was that if the government would give what I think someone called the green light the Canadian National Railways would adjust this matter more satisfactorily for these men. They are only a small group, a group of old men; and I feel that something should be done for them; and although I may be using strong terms, it is something of a national disgrace, that there should be any railway pensioner in Canada drawing a total subsistence allowance of \$25 a month. Would Mr. Gordon care to answer my question, as to upon whom the responsibility rests and then we would know the situation and we could make representations to the government or to the railway.

Hon. Mr. CHEVRIER: Perhaps I should say a word in connection with this. I do not think there is any difficulty where the responsibility lies, or that there is a division of responsibility. I tried to make that clear in the House the other day when I said that the Canadian National Railways had made representations to the government after discussions with the employees with reference to the revised pension plan and that after careful study they have not changed their view. Having reference particularly to what I think Mr. Knight would like the government to do, I think that would be to instruct the Canadian National Railways to increase the basic pension. Thus far we have not found it possible to do that.

Mr. KNIGHT: Now, are we talking about the same thing? What you referred to was an increase in the basic pension. What I am more particularly interested in, or at least what I am speaking about at the moment, is on behalf of those people who are existing on a pension of \$25 a month. Can we not separate that?

Hon. Mr. CHEVRIER: All right, let us separate it, but their position is far better than it was at this time last year.

Mr. KNIGHT: In what respect? I am not disputing it.

Hon. Mr. CHEVRIER: Because of the fact that they are now able to receive the universal old age pension of \$40, if they are 70 years of age.

Mr. KNIGHT: Is it your opinion that that should be considered in regard to the service that they have given to this railroad?

Hon. Mr. CHEVRIER: I am not putting it in that light. But the actual position is that, that the employees of the Canadian National Railways who are in receipt of a basic pension of \$25, if they are 70 years of age or older would be entitled to an additional \$40 a month.

Mr. KNIGHT: I think—

Hon. Mr. CHEVRIER: Let me go on. If they are between 65 and 70 they are still also in a position to qualify for an additional \$40 a month.

Mr. KNIGHT: I think this is a special case. We are not comparing it to any parallel case on what we call a basic pension. I will not go into that now. What I am trying to work out is this special case. I do not think the fact that some government comes along and offers these people \$40 or \$50 or \$60 a month has anything to do whatever with the matter, or that there should be a means test applied to anyone getting one of these \$25 a month pensions—even if the government wants to give these people \$100 a month as soon as they reach 70 years of age. That, to my mind, has nothing to do with the service these people have performed with the Canadian National Railway. They were

responsible for the building of this railroad, they were responsible for the operation of the line, for the development of the railroad, and now they have a miserable pittance of \$25 a month from the railroad.

Hon. Mr. CHEVRIER: I do not agree with that contention at all, Mr. Knight, because under the revised pension plan they are able to contribute just like any other group and in that way they can increase their pension if they wish to do so, and they could have done so before the revision.

Mr. FULTON: But is it not a case there that under the revised plan they contributed 5 per cent or more during the period of their employment—5 per cent of their wages?

Hon. Mr. CHEVRIER: I would like to ask Mr. Gordon to carry on with the details of the pension plan. He is more familiar with that than I am. But before we leave it, I made it quite clear in the House the other day, or at least I intended to if I did not; but certainly I think that all parties discussed that. Until the government is able to deal with the other groups such as those I mentioned—superannuated civil servants, retired pilots, and so on—thus far it has not been able to deal with this one particular group.

Mr. KNIGHT: Before Mr. Gordon replies, or comments, I would like to have someone give us the figures as to the number of people about whom I am talking. How many of these pensioners now receiving \$25 a month are there? I would like to get that figure. I would like to find out what the cost to the country would be of raising that pension in terms of the present cost of living increase, raising the rate at which that pension was granted.

Hon. Mr. CHEVRIER: Raising it up, you mean increasing it to \$40 a month?

Mr. KNIGHT: I am not stating to what extent. I said: how much would it cost the country to raise that pension corresponding with the rise in the cost of living, basing it on the cost of living index, which for this pension group I feel satisfied would be mere justice? If it were a higher pension, if it were a pension on which a man could live, I would not say anything about it, but this is a pension which everybody knows is altogether too low in relation to the cost of living. These men are dependent upon their relatives and friends, whatever you like. That is my case. I would like to know those two figures; if it is possible to work them out: first, how many there are of these men; and, secondly, what it would cost the Canadian National Railways to raise that pension comparative to the cost of living index today in relation to the time when these pensions were granted. If we have those figures it would clear the situation up and then when we go down to the House we would know what we were talking about.

Mr. GORDON: I would like to make a general comment on that situation. There has been a great deal of misunderstanding and this might be a good time to try to make clear the situation with regard to the matter about which we are talking.

Mr. KNIGHT: Very good.

Mr. GORDON: I do not know as much about it as my predecessor would. The situation when I came to the railway was that there had been discussions going on between the management and the minister in connection with the position of these basic pensioners. These discussions were in the form of consideration as to whether anything could be done to improve their lot. That went on backwards and forwards, and shortly after I came in office we worked out a formula which we thought we could recommend. While we were in the midst of that and discussions were going on with the unions, the announcement of the old age pension was made. We had not known of that in advance of these discussions and when we realized that the old age pension plan was to become operative we recognized that it would give these basic pensioners a

minimum monthly income of \$60 per month—and in some cases \$65 per month. Then it was felt both by the labour representatives and ourselves that the discussions we were carrying on had no further point. You see, in the first place, the so-called basic pensions are the payments which went into effect in 1935. You will also recall that the provision in the pension plan which went into effect at that time carried with it the right to contribute to an additional pension, that was a provision in the pension plan. Now, these men you are talking about did not choose to take advantage of that opportunity and that is why when their services terminated they received this small basic pension. That pension is now augmented to an extent by the old age pension and that brings the amount received up to as much as \$65 a month. And now, as regards the C.N.R. increasing the basic pension, that would be meaningless, it would simply mean that the C.N.R. would be paying the additional sum instead of the provinces paying it. Most of these people would become eligible at age 65 or over. In connection with that I may say that the labour representatives supported our view on this point and in that respect I would like to quote to you from a letter.

Mr. KNIGHT: Could you give me the date of that letter?

Mr. GORDON: This letter is dated March 22, 1952, and it is commenting on the revised pension plan and congratulating us on the new pension plan which had been announced.

Mr. KNIGHT: Was that from Mr. Hutchinson?

Mr. GORDON: Yes, from Mr. Hutchinson.

Mr. KNIGHT: We have another letter from Mr. Hutchinson.

Mr. GORDON: In the letter dated March 31, he says—

The expressions of opinion appeared to be almost universally in approval of the improvements which have been made.

Some of those who did not contribute toward annuities expressed disappointment that their lot is not improved but could not seem to impress the meeting that they were entitled to very much consideration on account of the fact that they had not made any effort to improve their lot.

Now, that as I say, is the view of the men themselves in a meeting assembled on this specific point. And so far as the C.N.R. management are concerned, we do not feel that we have any obligation in logic to recommend an increase in these so-called basic pensions by reason of the changed position arising out of the old age pension plan; because, again I emphasize that with a means test involved, if we were to increase the pension then it simply means that the C.N.R. would be paying the increase and not the provinces.

Mr. KNIGHT: I am still a little muddled about the matter of the existing pension—whether a man is 70 years of age or 65—to understand what that has to do with his services to the railroad. I used to be a school teacher. We have a service pension. As I understand it, it is, or it ought to be purely a service pension. It is given for services rendered and in no way should relate to receipt from the government of a \$40 pension which the man receives as of right.

Mr. GORDON: If I may say so, that is an error because this basic pension to which you refer, the C.N.R. pension, was the foundation on which an opportunity was given to every man to provide for his old age. We have started off the pension plan by saying that any person who had the qualifications would automatically get their basic pension of \$25 a month, and at the same time they were given an opportunity of making a contribution up to the extent of 5 per cent of their wages and if they did so the company would match that contribution dollar for dollar; but that was only if the man himself chose to do that; even

if they did not choose to do that they could still get their basic pension. There were a lot of the men who came forward and paid in, and there were a lot who did not. And now, the object of that plan was to serve as an inducement to encourage that man to provide for his old age. When he became eligible for retirement at age 65; and a contribution which any particular man had made was matched by the company contributing to the cost and forming a part of the capital sum which was used to provide the annuity at that time. So that that was the opportunity extended to these men who during their service lifetime saw fit to contribute a small cash amount to build up their old age benefit.

Mr. KNIGHT: Well, they are suffering an extremely heavy penalty for it now.

Mr. MACDONNELL: By the way, Mr. Gordon, when was that fund set up?

Mr. GORDON: In 1935. May I point out this free basic pension is a privilege. I think that probably the Canadian National Railway basic pension is a far better privilege than many you will find in industries, and I know a lot about pension funds in industry. You do not get a free pension. But the fact of the matter is that most modern pension funds of which I am aware—and I have seen quite a number of them—are contributory funds; the essential idea being to encourage the men to help themselves. That is what it is for, it is not intended to be charity.

Mr. KNIGHT: I think that it would be fair to say in regard to the letter—I know a letter was quoted a few years ago; or, at least emphasis was given to it; I think it was from a Mr. Hutchinson. I know what his position was at that time and I think there has been a considerable change since then.

Mr. GORDON: No, I do not think so. I have his letter here.

The CHAIRMAN: Mr. Knight, are you not entirely forgetting about the thousands of employees who are taking advantage of this plan to help themselves? What about them? Do you make no provision for those chaps who have undertaken to make provision for themselves?

Mr. GORDON: This is an official resolution sent to Mr. Cooper. This is an official resolution by a group of men who were appointed by their labour organizations to discuss this pension fund provision. It is the General Chairmen's Association, representative of all branches of labour employed by the C.N.R.; and this was an official resolution quoted from a letter to Mr. Cooper who was chairman of this committee. It is dated, Winnipeg, March 22, 1952, and it reads as follows:

GENERAL CHAIRMEN'S ASSOCIATION

WINNIPEG, Man.
March 22nd, 1952.

Mr. T. H. COOPER,
Chairman,
Pension Fund Board,
Canadian National Railways,
Montreal, Que.

Dear Mr. Cooper:—At a meeting of our association held in Montreal on Thursday March 13th the following motion was made, after the members had had an opportunity to examine and discuss the revised pension rules which were made effective from January 1st, 1952:

Moved by Griffith and Bowlby:

That we go on record as expressing our appreciation of the action of the Canadian National Railways, and the officers directly concerned, in making revision of our pension rules.

That we express our gratification at the substantial improvements which have been effected, particularly the welcome additions, such as survivor benefits, liberalized benefits for the unfit, because of illness, and etc.

That we particularly record our approval of the application of the improved rules to the pensions of contributors who have already retired.

That a copy of this motion be forwarded to Mr. T. H. Cooper, Chairman of the Pension Fund Board of the Canadian National Railways.

The motion was put and carried unanimously and I have pleasure in submitting it to you as instructed.

Yours very truly,

(Sgd.) A. A. HUTCHINSON,
Chairman.

Mr. KNIGHT: I have, of course, expressed my appreciation for the improved pension plan that exists under this new scheme, but I plead simply for that one group of men. Perhaps it is not fair to quote a letter which is in my hands but which I think has an important bearing on this matter. I do not know what is in it, but I am going to read it. This is from Mr. A. A. Hutchinson, under date of March 31, 1952. As I said, it has just been handed to me and I do not know what is in it, but I am going to quote it, if it is all right for me to do so.

The CHAIRMAN: Who is it written by?

Mr. KNIGHT: It is written by Mr. A. A. Hutchinson, chairman of the General Chairmen's Association of the Canadian National Railway system. It is dated March 31, 1952 and it reads as follows:

GENERAL CHAIRMEN'S ASSOCIATION

March 31st, 1952.

Mr. Stanley H. Knowles, M.P.,
House of Parliament,
Ottawa, Ontario.

Dear Mr. Knowles:—At the meeting of our General Chairmen's Association held in Montreal on March 13th the meeting, after I had explained to them the support you had given us in our requests for revision of pensions by your action in keeping the matter before the government and the railway, instructed me, by motion, to write to you and express their thanks for your very able assistance.

The new rules appear to be very satisfactory as far as they go and have been very well received by the members.

They do not as you know, provide anything additional for the man who did not contribute nor for the man who does not contribute in future and who retires in health.

They do provide some help for the man who retires through disability.

In any case, we do sincerely appreciate your attitude and assistance and hope that we may call on you again when and if the need arises.

With very best regards and my own personal thanks for your assistance, I am

Yours very truly,

(Sgd.) A. A. HUTCHINSON,
Chairman.

Now then, the emphasis again has been on the fact that they could not provide anything additional to the amount that had been contributed. The plea I am making, as I said, is on behalf of those who are in receipt of this \$25 a month pension. I want to emphasize the fact that he says that the new rules, while they appear to be very satisfactory, do not provide anything additional for the man who did not contribute; and that is the particular type of man on behalf of whom I make this plea.

Mr. GORDON: May I call your attention to the fact that in a letter to me of the same date he stated that meeting did not have any sympathy for that particular man.

Mr. KNIGHT: I did not question the men's attitude.

The CHAIRMAN: Are there any further questions on employee relations.

Mr. FULTON: I would like to clear up perhaps a misunderstanding, I think, because I gather the impression from the discussion that even in the case of a man already retired he can take advantage of this plan you mentioned by paying an increased amount of money into the fund and in that way getting an increased pension. I formed the impression that that privilege was not open to these people who contributed less than 5 per cent during their period of service.

Mr. GORDON: The answer to that is this: in the first place, in making the pension benefit retroactive to existing pensioners we were doing something quite unusual; as a matter of fact, we had considerable difficulty in arriving at a decision as to what would be a justifiable recommendation. What we have done for existing pensioners is this: we said that the money which that man paid in would provide for him a benefit of the same amount as though he had been under the revised pension fund plan; in other words, if he had paid in the full 5 per cent he would get the full amount of the pension that he would have got had he still been in the service—he went out under part 2 of the new fund. If, however, he had paid, for example, 3 per cent, he would get three-fifths of the amount he would otherwise have got in respect to pension. That would give him the same value in actual dollars as the amount he contributed during his period of service with the railway.

Mr. FULTON: So he does benefit by the amount of his contribution into the pension fund.

Mr. GORDON: He has the right to select the benefits in the revised plan. In some cases it would be to his advantage to do that, and in other cases it would not.

Mr. MUTCH: Would it be possible for a retired pensioner who wishes to increase the amount of his pension to augment his present pension by making payments out of money he has paid in over the years of his employment?

Mr. GORDON: No, it does not operate that way.

Mr. MUTCH: That means then that he must make a cash contribution.

Mr. GORDON: No. We simply say to him that the pension which he now has, the capital amount of that pension, may be used by him, if he wishes and so elects to procure a pension under plan 2. As I said, he has that opportunity

and he can retire under the revised plan. In some cases that is a substantial benefit to these existing pensioners who have paid in to the fund the full 5 per cent.

Mr. KNIGHT: Mr. Chairman, might I ask one more question to Mr. Gordon? I think I asked you if you could give me the information with regard to the men under this plan?

Mr. GORDON: I think I have that here. The breakdown is right here. There are 52 pensioners in receipt of less than \$25. There are 3,384 in receipt of \$25 per month.

Mr. KNIGHT: That covers it. Have you any idea of what the average age of these pensioners?

Mr. GORDON: Yes, we have the age groups. You know that some of them are over 80.

The CHAIRMAN: Might I suggest that any further detailed questions of this kind be put in writing to the chair and the answers will appear as an appendix to our record of today's business.

Now, shall this section "employee relations" carry?

Carried.

Mr. FOLLWELL: Might I ask one question, a short one, to which Mr. Gordon may just say yes or no. It is just for information and perhaps publicity. I understand that on the new pension arrangement you are sending out a group of trained officials to divisional points to explain it to your people.

Mr. GORDON: We established regional committees for the specific purpose of helping individual employees to reach the right conclusion as to what is best for themselves.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen we have a quorum.

We have concluded with the C.N.R. report subject to two reservations. Mr. Fulton required to be absent this morning and I indicated to the committee that I thought he should have an opportunity of asking questions with respect to paragraphs 14, signalling, 17, communications, and 27, terminal facilities; and on considering Mr. Gillis' remarks I think it would be fair to limit those questions to say ten minutes. When Mr. Fulton comes and when it is convenient to the committee we will break in.

Then, Mr. Macdonnell also required to be absent on other committee work and I don't know whether you wish to ask your questions now, Mr. Macdonnell or whether they would be covered by the budget items?

Mr. MACDONNELL: I think most of them would come up under the budget.

Mr. McLURE: Did you pass paragraph 38?

The CHAIRMAN: Just a moment, Mr. McLure.

Mr. MACDONNELL: There was one outstanding point I asked about yesterday and that was operating ratio.

Mr. GORDON: I have that, Mr. Chairman, and I would be prepared to table the figures. I mention three significant figures for operating ratio—the C.N.R. system figure is 92.85 per cent and the C.P.R. figure is 88.93 per cent. The figure for United States class 1 roads is 77.39 per cent.

I follow with a half a dozen individual figures for the United States railways.

COMPARISON OF C.N.R. SYSTEM OPERATING RATIO WITH
THAT OF THE C.P.R. AND UNITED STATES RAILROADS

	1951	1950
Canadian National Railway System.....	92·85 %	89·20 %
Canadian Pacific Railway.....	88·93	85·51
U.S. Class I Roads.....	77·39	74·52
New York Central.....	85·34	83·30
Baltimore & Ohio.....	81·18	80·63
Pennsylvania Railroad	85·50	84·35
Santa Fe	74·71	67·12
Southern Pacific	77·10	73·10
Union Pacific	74·32	70·28

Mr. MACDONNELL: May I ask just one other question? Your ratio has gone up roughly three points in the last year. What has been the effect on the other railways? What about the C.P.R.?

Mr. GORDON: I have shown the C.P.R. ratio in the figures for 1950. The C.P.R. ratio increased 3·42 per cent and the C.N.R. ratio increased 3·65 per cent. It is approximately the same.

The CHAIRMAN: Is there anything further?

Mr. MACDONNELL: I think that is sufficient.

Mr. McLURE: I did not think you had passed employee relations?

The CHAIRMAN: Yes.

Mr. McLURE: There was one question in connection with paragraph 39. Agreements were made with the trainmen's organization in May of 1951. What I refer to and what I was going to ask about was this. Regarding a threatened strike, or an actual strike such as took place on the railway a short time ago, has an agreement been made now so that the crews of our ferry boats will not be able to strike like they did and tie us up completely—shutting us off from the mainland. I understood that was something that was going to be corrected for the future and I would like to have a report on it today.

Mr. GORDON: The agreement referred to in the Report is an agreement covering our United States lines. The non-operating agreement to which you refer does not expire until September of this year and, subject to sixty days notice as was mentioned yesterday to Mr. Fulton, that agreement has not and cannot be renegotiated until sixty days before expiry in September of 1952.

Mr. McLURE: Well, in the meantime supposing a strike arose again, would we be in the same situation as before—about the ferry?

Hon. Mr. CHEVRIER: The point you raise, Mr. McLure, and which you raised during the course of the strike is this. The employees of the ferry are also employees of the railway, and unless you take those employees out of the collective agreement made with the railway you cannot have redress for what you are seeking. How you are going to do that I do not know, but it is certainly a matter for collective bargaining.

Mr. McLURE: Surely there must be some way to do it?

Hon. Mr. CHEVRIER: I would think there is but I would think the unions would not want to have them segregated. Certainly they did not want to have them segregated from the rest of the employees because, when representations were made by the premier of the province and others at the time through our offices to Mr. Hall his answer was no—except in one instance where there were perishables involved—and he let the ferry operate on that occasion.

Mr. McLURE: The strike was started and they went back to work. If they could go back before it was settled why are they allowed to strike at all?

Hon. Mr. CHEVRIER: Well, they have certain rights under their collective agreement and certainly the government did all it could to settle the strike without interfering with the rights under the agreement.

Mr. McLURE: It is not a Canadian National Railway owned boat, the boat is a government owned boat.

Hon. Mr. CHEVRIER: Perhaps the fact that you have raised it here is sufficient for the railway authorities to take notice of it and when the collective agreement does come up for revision I do not know whether your point can be met but it certainly can be given consideration.

Mr. McLURE: Well, if we had an opportunity to debate it at that time I think it would be met.

The CHAIRMAN: Mr. Fulton, in your absence I suggested that the three paragraphs in which you were interested should stand but the committee preferred to carry them and I made the reservation that I would recall paragraph 14 on signalling and track equipment, paragraph 17 on communications, and paragraph 27 on terminal facilities on the understanding that you would have ten minutes to ask what questions you would like to ask.

Mr. FULTON: Thank you, Mr. Chairman, I appreciate that very much.

Mr. Gordon, I understand you were asked some questions this morning on paragraph 14. To start with, if the questions I ask will simply be a repetition or if your answer will be a repetition of information you have already given just indicate that to me and I will find the information in the record.

You make reference in your report to the amount of mileage on which you have installed block signal system in the area from Jasper, Alberta to Port Mann, B.C., 43 miles of line this year, bringing the total to 159 miles in service in this area at the end of the year.

What I want to ask is whether, although I appreciate the difficulty of the installation, you regard that as really satisfactory progress in the light of the urgent recommendation of the Board of Transport Commissioners incorporated in their report of their investigation into an accident out there a year and a half ago?

Mr. GORDON: By and large I feel the program we have in hand here is about all we can tackle having regard to the limitations of the supply of equipment and in particular the limitations of skilled personnel to install these signals. It is a highly technical operation and we are pushing it just as hard as we can having regard to those limitations.

Mr. FULTON: What is your main limitation?

Mr. GORDON: Skilled personnel.

Mr. FULTON: Not equipment?

Mr. GORDON: Equipment is bad but I would say the main limitation which handicaps us is the question of skilled personnel.

Mr. FULTON: I do not like you to enter a discussion which would raise jealousy within regions but I suggest on the surface it would appear to me the nature of that area justifies at least the suggestion that you should concentrate on it even to the exclusion of other areas which are not through mountainous regions. I would make that suggestion in the light of the recommendation of the Board that "the Canadian National Railways take necessary measures to install block signals in mountain territory and other dangerous parts of the C.N.R. system as speedily as possible."

Can you do anything to assign to that area a higher priority?

Mr. GORDON: I would say it has top priority right now. Would you agree with that, Mr. Dingle?

Mr. DINGLE: Yes, sir.

Mr. GORDON: We have given it top priority. While the actual mileage looks small nevertheless it is a substantial mileage in the nature of the installation and, with the limited staff available, we are pushing it as hard as we can. It certainly has top priority in our signalling projects now.

Mr. FULTON: I take it you will be carrying on installation of this type of equipment even when you have completed the immediate danger areas?

Mr. GORDON: Yes, that is true.

Mr. FULTON: Would it follow there that you are going to keep a crew on permanently, perhaps building up to greater strength?

Mr. GORDON: Oh, yes. We will certainly increase that more as soon as we can train men.

Mr. FULTON: I do not like to ask you to commit yourself but can you tell us whether about the same amount of mileage or greater mileage will be done in future years?

Mr. GORDON: Again I say it is contingent really on supply and labour conditions—and also in some respects the amount of money involved. We put in the budget an amount which we think is reasonable for the current year in the light of other essential or highly desirable operations. As I say we have strained ourselves to the limit with respect to our personnel availability.

Mr. FULTON: You do not feel that you can safely forecast?

Mr. GORDON: I do not see any acceleration in excess of the present position in the next say two years. We might pick up pace after that.

Mr. FULTON: Although I appreciate the difficulties I am disappointed. Last year you told us that for the time being at any rate you were discontinuing any further work on the slide detector fences and concentrating exclusively on this type of signal equipment—on the block signal system. I asked you then whether you would keep an open mind and not condemn the slide detector fences, keeping the position that when you have finished the block signal system you can go ahead with the slide detector fences. Have you reached any conclusions on that?

Mr. GORDON: Yes, and the conclusion is that we are better advised to use available personnel and available material to push ahead as fast as we can with the automatic block signals rather than waste any more time on what we are satisfied ourselves is an unsatisfactory device—in the form of the slide detector.

In other words if we can get the automatic block system in that area we are satisfied that we will get a better measure of protection than we will get or could get from the slide detector. To the full extent that we take time to put in slide detector fences we are delaying other more important progress.

Mr. FULTON: I think I have to accept it that until you have finished with the block signals system you are not going to proceed any further with the slide detector fences; and that is your policy. What I am asking is whether you have advanced your conclusion any further from last year when I asked you about keeping your mind open regarding the advisability of putting in slide detector fences at specific danger points when you have finished with the block signal system?

Mr. GORDON: Subject to this. With the installation of the automatic block we will now have an experience period and if we find we get the margin of protection we expect to get we may very well conclude that we do not need slide detectors. I do not say we will rule out the slide detector but after we have had experience with the automatic block we may very well say that it is adequate and that we do not need the extra protection.

Mr. FULTON: I am satisfied at the moment unless, you want to make any additional comment, that you are still prepared to consider whether or not the slide detector fence at specific danger points would provide an additional safety factor at actual points after you have finished with the block system?

Mr. GORDON: In the light of the actual system—

Mr. FULTON: In respect to communications you mention in paragraph 19 that new operating methods and technique were examined with a view to achieving greater efficiency, etc. In the light of the difficulties which have arisen from imperfect understanding or reproduction of train orders in the past, would you consider the safety factor would be substantially increased if you could install a system—I am leaving out for the moment the financial aspect and I will come to that later—but if you could install a system of teletype at your various despatching points, and between various despatching points, so as to avoid as far as possible human error in the reproducing of orders?

Mr. GORDON: That is getting into a pretty technical operating matter and I think I will ask Mr. Dingle to refer to it.

Mr. DINGLE: We have found up to the moment, Mr. Fulton, that voice contact is much better than what you describe as teletype—in other words, I mean the message form. When the operator has to write the order, repeat it back to the dispatcher, we feel much safer.

Mr. FULTON: You think there is danger perhaps of mechanical breakdown or inaccuracy in reproduction on the teletype? What I have in mind is a machine which actually prints out the message in the point of reception as it is received over the wire. I think you know what I have in mind.

Mr. DINGLE: I do not know of any teletype machine that is set to handle a form; and train orders are on set forms. To transfer from a message form by teletype to a form in the office, without any check-back, such as we now have, I do not think would be as satisfactory. That is my opinion.

Hon. Mr. CHEVRIER: It certainly would not be. That is right.

Mr. GORDON: It would not be as fast or as flexible.

Hon. Mr. CHEVRIER: The other railways do it by phone.

Mr. DINGLE: Yes.

Mr. FULTON: I asked if the matter had been considered, and you say that it has. Very well. Thank you. On terminal facilities, paragraph 27, I expect that Mr. Gordon has received a pamphlet, as many members of parliament have, written by a man whose name I cannot pronounce, but it is spelled Rideout. I do not know the gentleman, but I got his pamphlet and I was interested in reading it. He does refer to the congestion in the terminal at Montreal and he suggests greater use could be made of the other national transcontinental line between Quebec and Armstrong; and in view of the remarks in your report on the expenditures necessary to increase your terminal facilities at Montreal and the congestion you are now experiencing there, I wonder if you would care to comment on that subject, Mr. Gordon?

Mr. GORDON: Our Montreal congestion has been one of our most worrisome problems in regard to terminals generally; and it is for that reason that we have acquired by expropriation proceedings a large tract of land just outside the city for a new hump-yard which will enable us to marshal our cars in a much more efficient way and which will relieve that congestion. But in the meantime until we get through there, we are suffering from bad congestion in our Turcot yards. But even there we have a substantial amount of money in our budget to improve the facilities at Turcot. Our officials have been studying every possible way to by-pass traffic including use of the line which you have in mind. We are getting a lot of advice from amateurs in regard to how to run terminals; but the functioning of a terminal is a highly technical and very difficult

operation. Probably it is one of the most skilled operations of all; and all I can say by way of summary is that the best minds of the railway have been tackling the problem of terminal congestion and that Montreal in particular has been of special interest to the study that these men have made.

Mr. FULTON: I was not so much concerned in entering into discussion with you on how to run a terminal as into an examination of Mr. Rideout's basic contention that a better operation in Montreal might be arrived at by making greater use of this line to which he refers.

Mr. GORDON: That is generally the question of by-passing traffic from east to west instead of bringing it through Montreal itself. We have had that problem under examination and we have done as much as we can on it. But it is not quite as simple as it looks. There are situations in which you have to come into a terminal to be properly serviced and to re-marshall the cars. But to the extent that we can by-pass the city through the use of that northern line, we feel we are accomplishing that.

Mr. FULTON: Is the possibility one of by-passing traffic there which would be coming from pretty well west of the lake head?

Mr. GORDON: That is right.

Mr. FULTON: Traffic which would be going east?

Mr. GORDON: Right through to the coast.

Mr. FULTON: Is there sufficient traffic of that nature, or is there sufficient traffic originating on that branch of the line from the lake heads east to justify the spending of more money to make a major line out of your northern line?

Mr. GORDON: Our general feeling is that we will do a better job by pushing with all our might for a new hump yard and using it as a re-marshalling center. It is simple enough to think of by-passing a city, but in doing so you get into all sorts of technical difficulties in regard to servicing the motive power, re-arranging the cars, and as I said before, to the extent that we can simply by-pass, we can gain in speed of operation. We are carrying the traffic as best we can to get advantage of that operation; but as an over-all everyday job to say that we should use that northern line and by-pass everything that went through to the coast, I would say no, that it is neither a practical, nor an efficient operation.

Mr. GEORGE: Has consideration been given to the request made by the greater planning commission of the city of Moncton with a view to building new yards and by-passing the city of Moncton with through traffic?

Mr. GORDON: There has been a great deal of discussion with the city of Moncton in regard to that, but our difficulty has been that we have not been able to get agreed conclusions in regard to the city itself and some of the proposals which have been made would run into fantastic expenditures, on the assumption that they should be all expenditures made by the railways.

The CHAIRMAN: Will the members of the committee now refer to the annual report of the Canadian National (West Indies) Steamships Limited.

Mr. GORDON: This is the annual report of the Canadian National (West Indies) Steamships Limited, and it reads as follows:

MONTREAL, March 10, 1952.

THE HONOURABLE LIONEL CHEVRER, Q.C., M.P.,
MINISTER OF TRANSPORT,
OTTAWA.

Sir:

The following report is submitted of the operation of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1951.

The operating results for the year compare with those of the previous year as follows:

	1951	1950	Increase or decrease	
Operating revenues	\$6,808,478	\$5,124,200	\$1,684,278	32.9%
Operating expenses	6,840,054	5,725,632	1,114,422	19.5%
Operating loss	<u>\$ 31,576</u>	<u>\$ 601,432</u>	<u>\$ 569,856</u>	

Freight revenue amounted to \$5,312,191, representing an increase of 39.3 per cent over the previous year, largely due to the relaxation of dollar import restrictions on certain commodities under the "Trade Liberalization Plan" effective January 1, 1951. The total tonnage carried in 1951 was 340,286 tons, as compared with 279,232 tons in the previous year, an increase of 21.9 per cent.

Southbound tonnage increased by 37,848 tons or 40 per cent, principally due to the increased movement of flour. Northbound tonnage showed a gain of 23,206 tons or 12.6 per cent, due to a substantial rise in sugar tonnage, partly offset by a reduction in other cargoes.

Passenger revenue decreased by \$79,298 or 8.7 per cent, due to a decrease in round-trip cruise traffic and to sustained competition from airlines and other carriers.

Charter revenue, amounting to \$521,443, was more than doubled because of the more favourable rates obtained and the chartering of non-refrigerated cargo vessels for longer periods in 1951.

The increase of \$1,114,422, or 19.5 per cent in operating expenses reflects the greater volume of freight tonnage handled, an increase in the number of operating days in service, and one additional voyage completed in 1951, the number of voyages completed being 64. Increased port handling charges, higher wages, and the increased cost of vessel supplies all contributed to the increase in operating expenses.

After payment of interest on bonds held by the public and on Government advances there was an over-all deficit of \$466,992 as compared with \$1,028,767 in 1950. The Consolidated Income Account is shown on page 8.

There was no change in the fleet during the year, which at present comprises:

		Gross tonnage	Dead- weight tonnage
"Lady Nelson".....	Freight and Passenger.....	7,830	6,410
"Lady Rodney".....	Freight and Passenger.....	8,252	4,665
"Canadian Challenger" ..	Diesel-powered and refrigerated.	6,745	7,460
"Canadian Constructor" ..	Diesel-powered and refrigerated.	6,745	7,460
"Canadian Cruiser"	Diesel-powered and refrigerated.	6,745	7,460
"Canadian Conqueror" ...	Non-refrigerated	2,930	4,532
"Canadian Highlander" ..	Non-refrigerated	2,966	4,532
"Canadian Leader"	Non-refrigerated	2,930	4,532
"Canadian Observer"	Non-refrigerated	2,967	4,532
"Canadian Victor"	Non-refrigerated	2,963	4,532
		<u>51,073</u>	<u>56,115</u>

The "Lady Nelson" and the "Lady Rodney", built in 1928 and 1929 respectively, are no longer suitable for operation in this service, and the Government has decided that they should be withdrawn after the

summer season. It is the intention, however, to provide a regular and adequate freight service on a commercial basis to British West Indies, Bermuda and British Guiana. The diesel ships in operation in this service are equipped to provide comfortable accommodation generally adequate to take care of the business people wishing to travel by sea.

The balance in the Vessel Replacement Fund at the end of 1951 was \$4,685,337 as compared with \$4,313,638 at the year-end in 1950. The Insurance Fund balance was \$2,046,654 against a balance of \$1,772,458 at the end of 1950.

The loyal and effective services rendered to the Company by its officers and employees is acknowledged with appreciation.

For the Board of Directors,

D. GORDON,
President.

CONSOLIDATED BALANCE SHEET

At 31st. DECEMBER, 1951

ASSETS		LIABILITIES	
Investments		Capital Stock	
Vessels	\$9,844,445	Authorized and issued 400 shares of \$100 each	\$ 40,000
Less accrued depreciation.....	5,579,782		
	<hr/>	Funded Debt	
Vessel replacement fund.....	\$4,264,663	25 Year 5% Government of Canada Guaranteed Bonds, maturing March 1, 1955	9,400,000
	4,685,337		
	<hr/>	Government of Canada Advances	
Current Assets		For deficits	\$3,618,505
Cash in banks.....	\$1,097,613	For working capital	150,000
Special deposits.....	5,750		<hr/>
	<hr/>	Current Liabilities	
Accounts receivable.....	86,702	Accounts payable	\$ 724,445
Freight, passenger and agency balances	191,580	Interest matured unpaid	5,750
Government of Canada—Due on deficit account	46,537	Unmatured interest accrued	886,862
Inventories	25,281		<hr/>
Advances to captains, crews, etc. . .	42,615	Unadjusted Credits	150,241
Due from insurance and replacement funds	141,025	Insurance Reserve	2,046,654
		Profit and Loss—Deficit	3,618,505
			<hr/>
			\$12,673,757
			<hr/>

Insurance Fund**Discount on Capital Stock**

2,046,654
40,000

\$12,673,757

NOTE:—A reserve has been provided for pension contracts in force under the C.N.R. 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1951.

In our opinion, proper books of account have been kept by the Steamships, and the consolidated balance sheet at the 31st December, 1951, and the relative consolidated income and profit and loss accounts for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the Steamships.

The above consolidated balance sheet and the relative consolidated income and profit and loss accounts are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at the 31st December, 1951, and of the consolidated income and expense for the year.

The transactions of the Steamships that have come under our notice have, in our opinion, been within the powers of the Steamships. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

	1951	1950
Operating Revenues		
Freight	\$5,312,191	\$3,812,587
Passenger	832,054	911,352
Miscellaneous	48,141	45,684
Subsidies	94,649	103,031
Charter	521,443	251,546
Total	\$6,808,478	\$5,124,200
Operating Expenses		
Voyage accounts	\$6,107,348	\$4,985,802
Lay-up expenses	11,978	52,027
Depreciation on vessels	371,699	371,699
Management and office expenses	224,143	226,096
Pensions	1,567	25,116
Other expenses	123,319	64,892
Total	\$6,840,054	\$5,725,632
Operating loss	\$ 31,576	\$ 601,432
Vessel replacement fund earnings	130,368	133,127
Interest on bonds held by public	470,000	470,000
Interest on Government advances	95,784	90,462
Income deficit	\$ 466,992	\$1,028,767

CONSOLIDATED PROFIT AND LOSS ACCOUNT
AT 31st DECEMBER, 1951

Balance at 31st December, 1950—Deficit	\$3,618,505
The income deficit for the year was assumed by the Government of Canada	—
Balance at 31st December, 1951—Deficit	<u>\$ 3,618,505</u>

The CHAIRMAN: Thank you, Mr. Gordon. Are there any questions on "Operating Revenue, and Operating Expenses"?

Mr. MOTT: How many passengers will these other boats carry?

Mr. GORDON: The diesel ships will carry 12 passengers.

Mr. POULIOT: What is the price of the trip?

Mr. GORDON: The price of the trip?

Mr. POULIOT: On the boat?

Mr. GORDON: I do not know; it depends on the class of the cabin. I will have to look it up; I have not got it in my mind; I will see that you get it.

Mr. FULTON: May I ask the minister whether the withdrawal of the two ships referred to presented any difficulty under the terms of the Commercial Treaty?

Hon. Mr. CHEVRIER: No, none whatever, because under the agreement there was provision for the payment of certain subsidies and most of the subsidies have been paid; in any event, it was felt that because of the service provided by TCA to most of those places, all we were doing there was to double at great cost the passenger service provided by the Lady boats.

Mr. FULTON: This will not affect their freight service to any appreciable extent, then?

Hon. Mr. CHEVRIER: We hope not. The government is studying a proposal made by the Canadian National to operate these freight cargo vessels, as outlined in the report. And I think that the recommendation of the Canadian National Railways will be adopted in that respect.

Mr. FULTON: Is their passing not to be noted with a pang of regret?

Hon. Mr. CHEVRIER: Yes. I am sure it should be; but I think Mr. Gordon could substantiate this and confirm it. Those Lady boats were pretty old and they got to the point where they needed substantial repairs at a considerable cost; and it was a question whether they should build new ships or repair the old ones. Against that the decision was taken to abandon them.

Mr. FRASER: Will they be sold?

Mr. GORDON: We are negotiating for their sale now. While we feel that these Lady boats are not suitable for operation in this particular way, nevertheless we do feel that they are still quite saleable vessels and we hope to get a good price for them for operation elsewhere. The major difficulty in regard to the freight service vis-à-vis the Lady boats was the fact that it was a scheduled service, by reason of the fact that they were passenger boats. They were supposed to be there at a given time for the convenience of passengers; but freight does not work that way. So we found ourselves badly handicapped when we proposed to run a freight service on a commercial basis; and we hope therefore to have a more effective service with the new freight vessels.

Mr. MACDONNELL: On the last page under "Consolidated Income Account"; the third last item, I see "vessel replacement fund earnings, \$130,368". What would be the explanation for that?

Mr. GORDON: That is the interest on the investment fund, the vessel replacement fund. That is shown in the balance sheet. We now hold bonds and securities pending the use of that fund, and this is merely the income from that fund.

The CHAIRMAN: Are there any further questions on the balance sheet?

Mr. GORDON: It had regard to the sinking of the vessels during the war; it was the insurance payments on the vessels which were sunk during the war.

The CHAIRMAN: Are there any further questions on that part of the balance sheet?

Mr. GORDON: It was insurance payments on the vessels during the war.

Mr. FRASER: Is there any intention of making this list of five ships mentioned here that are non-refrigerated into refrigerated ships?

Mr. GORDON: That will have to have much more study, study as to the kind of service, the new competitive service we propose to offer. If the traffic is there, we will do so.

Mr. FRASER: They all travel south and I was wondering if refrigeration would not be an advantage?

Mr. GORDON: That will depend on the sort of traffic we will be able to drum up.

Mr. MACDONNELL: You speak of the benefit the steamships have had from the trade liberalization plan of January 1950. Has there been any tendency to change that?

Mr. GORDON: That was the matter arising out of the restrictions on foreign exchange, and by agreement with the dominion government; it is a currency difficulty only, yes.

Mr. GRACEY: The British government decided to give the West Indies a little more lenient treatment than other parts of the sterling area to help them in their trade.

Mr. MACDONNELL: And that is continuing?

Mr. GRACY: Yes.

The CHAIRMAN: If there are no more questions on that we will turn to the budget items.

Mr. FULTON: Before you do that, are you going to go back and formally adopt all these reports later on?

The CHAIRMAN: If you wish a formal motion, Mr. Fulton—Mr. Fulton moves that the annual report of the Canadian National Steamships Limited be adopted.

Carried.

Mr. FULTON: In the past it has been our custom to adopt the report first and then the consolidated balance sheet as a separate item. I am not going to raise any questions but I just want to know if we are going to adopt that formula.

The CHAIRMAN: I thought we would deal with the three budget items and one blanket motion would adopt the entire report.

Mr. MACDONNELL: Do I understand that there would be the possibility of recommendations being made in the report?

The CHAIRMAN: Yes. Now we come to the budget items. Item 485:

No. of Vote	Service	De- tails on Page No.	1952-53	1951-52	Compared with Estimates of 1951-52	
					Increase	Decrease
			\$	\$	\$	\$
485	Prince Edward Island Car Ferry and Terminals— To provide for the payment during the fiscal year 1952-53 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1952.....	533	1,485,000	1,280,000	205,000	

Mr. McLURE: Is that marked a service or a deficit?

Hon. Mr. CHEVRIER: We are still considering that point Mr. McLure.

The CHAIRMAN: Mr. McLure moves that vote 485 carry.

Carried.

Vote 486:

No. of Vote	Service	Details on Page No.	1952-53	1951-52	Compared with Estimates of 1951-52	
					Increase	Decrease
486	Canadian National (West Indies) Steamships, Limited— To provide for the payment from time to time to the Canadian National (West Indies) Steamships, Limited (hereinafter called "The Company") of the amount of the deficit occurring during the year ending December 31st, 1952 in the operations of the Company and the vessels under the control of the Company, as certified by the Auditors of the Company, and upon applications made by the Company to the Minister of Finance and approved by the Minister of Transport, not exceeding.....	533	\$ 734,000	\$ 845,000	\$	\$ 111,000

Shall vote 486 carry?

Carried.

Now we come to vote 493:

No. of Vote	Service	Details on Page No.	1952-53	1951-52	Compared with Estimates of 1951-52	
					Increase	Decrease
493	Maritime Freight Rates Act— For the payment to the Railway Companies operating in the select territory designated by the Act, during the fiscal year 1952-53, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by Auditors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the Calendar Year 1952, (Chap. 79, Statutes of 1927, as amended).....	535	\$ 9,910,000	\$ 9,125,000	\$ 785,000	
	Appropriations not required for 1952-53.....	536		130,000		130,000
			21,967,700	17,947,000	4,020,700	

Shall vote 493 carry?

Carried.

Shall we turn now to the budget?

Mr. MACDONNELL: I want to ask a question about that Maritime Freight Rates Act. Has that ever been affected by any of the freight rate revisions?

Hon. Mr. CHEVRIER: Not in the slightest. It was a special provision.

The CHAIRMAN: Mr. Macdonnell, you have been away quite a bit and I will give you the floor first on this budget.

CANADIAN NATIONAL RAILWAYS
SUMMARY FORECAST OF FINANCIAL REQUIREMENTS—YEAR 1952

	1952 Estimated	1951 Actual	Page No.
	\$	\$	
<i>Income Account—</i>			
Operating Revenues.....	663,090,000	624,834,120	
Operating Expenses.....	613,828,000	580,150,221	
Net Operating Revenues.....	49,262,000	44,683,899	
Net Income Charges (excluding Interest).....	17,248,000	12,900,780	
Available for Payment of Interest.....	32,014,000	31,783,119	
Interest on Funded Debt—Public.....	21,849,000	23,467,703	
Interest on Government Loans.....	28,190,000	23,347,412	
Income Deficiency.....	18,025,000	15,031,996	

CAPITAL BUDGET—1952

1952 CAPITAL EXPENDITURES, NOT HERETOFORE AUTHORIZED, WITH 1951 COMPARISON—

	1952 Estimated	1951 Budget	Page No.
	\$	\$	
<i>Additions and Betterments—</i>			
General (excluding new equipment).....	27,363,257	14,894,066	5
New Equipment—			
1952 Orders—\$25,059,952, of which \$2,413,092 will be delivered in 1952.....	2,413,092	56,722,177	8
Acquisition of Securities.....	516,900	3,712,000	9
Additional Working Capital.....	15,000,000	20,000,000	
1952 Budget Program.....	45,293,249	95,328,243	

SUMMARY OF 1952 FINANCIAL AUTHORIZATIONS REQUIRED WITH 1951
COMPARISON

	1952 Estimated	1951 Budget	Page No.
	\$	\$	
<i>Capital Expenditures—</i>			
1952 Budget Program—as detailed hereinbefore.....	45,293,249	95,328,243	1
Sherridon-Lynn Lake Branch Line—authorized C.44 Statutes of Canada, 1951.....	7,800,000	22,408,757	10
Revotes, and to complete projects previously authorized.....	23,014,271		6
New Equipment authorized by C.N.R. Financing and Guarantee Acts (Nos. 1 and 2), 1951, cost of which will exceed the originally estimated cost by.....	8,325,822		7
New Equipment ordered pursuant to Canadian National Railways Financing and Guarantee Act (No. 1) 1951.....	20,389,043		7
	104,822,385	117,737,000	
Less amounts available from Depreciation Reserves and Debt Discount Amortization.....	17,350,000	16,522,000	
	87,472,385	101,215,000	6

The financial authorizations in respect of equipment, as contained in the Financing and Guarantee Acts (Nos. 1 and 2) 1951, will, to the extent of the unexpended balances (\$12,577,003 under the No. 1 Act and \$52,355,892 under the No. 2 Act) be utilized as the related equipment is delivered during 1952.

C.N.R. Financing and Guarantee Act 1951 authorized placing of orders for new equipment during 1951 (with consent of the Governor in Council) amounting to \$111,512,920, including certain passenger equipment now estimated to cost \$43,767,655. This passenger equipment was not ordered during 1951 and reinstatement of the expired authority is now desired. See page 7.

Authority is also desired to place orders for the new equipment estimated to cost \$25,059,952, hereinbefore referred to, to the extent that it will not be delivered during 1952, being \$22,646,860. See page 8.

Authority is also desired to place orders for new equipment to be included in the 1953 Budget program to the extent of \$56,721,195. See page 8.

Authority is also desired, to the Minister of Finance, to make advances to the extent of \$50,000,000 against new equipment to be delivered in the spring of 1953 under the above authorizations, which advances are to be reimbursed by the Railway subsequent to the enactment of the C.N.R. Financing and Guarantee Act 1953. See pages 7 and 8.

1951 FINANCIAL REQUIREMENTS COMPARED WITH THE BUDGET

	1951 Actual Require- ments	1951 Budget
General Additions and Betterments.....	\$	\$
Revotes, and to complete projects authorized in previous years.....	25,345,371	14,894,066
Sherridon-Lynn Lake Branch Line.....	1,206,873	22,408,757
New Equipment.....	26,552,244	37,302,823
Acquisition of Securities.....	44,145,175	56,722,177
Additional Working Capital.....	Cr. 7,846,083	3,712,000
	15,000,000	20,000,000
Less: Amounts available from Depreciation Reserve and Debt Discount Amortization.....	77,851,336	117,737,000
	16,517,396	16,522,000
	61,333,940	101,215,000

Under C.N.R. Financing and Guarantee Act (No. 2), 1951, authority was given to make expenditures for new equipment amounting to \$55,581,816, also delivery is anticipated prior to July 1st, 1952.

Delivered in 1951	\$ 3,225,924
Deliveries in 1952	55,605,508
	<u>\$58,831,432</u>

Authority for the overexpenditure of \$3,249,616 will be sought through the 1952 Capital Budget.

CANADIAN NATIONAL RAILWAYS

1951 CAPITAL EXPENDITURES COMPARED WITH 1951 BUDGET—

BY REGIONS, DEPARTMENTS, ETC.

	1951 Capital Expenditures	1951 Budget
Additions and Betterments		
Atlantic Region, incl. Newfoundland Dist.....	\$ 3,521,280	\$ 4,580,868
Central Region, incl. Montreal Terminal Dev.	11,411,278	18,519,722
Western Region, incl. D.W. & P. Ry.....	5,892,011	11,779,205
Grand Trunk Western Railroad.....	2,056,075	5,708,873
Central Vermont Railway.....	994,502	377,096
Subsidiary Companies..... Cr.	5,395,483	285,149
Express, Communications and Other Departments	7,401,336	12,961,576
Additions and Betterments to Equipment— Canada	4,544,904	6,006,106
Equipment Retirements..... * Cr.	5,080,532	Cr. 5,515,772
	<hr/> 25,345,371	<hr/> 54,702,823
Less: Portion of projects included in above requirements not physically completed by the end of the year.....	.....	17,400,000
Sherridon—Lynn Lake Branch Line.....	1,206,873	.....
Total—Additions and Betterments—Net..	<hr/> \$26,552,244	<hr/> \$37,302,823
New Equipment	<hr/> \$44,145,175	<hr/> \$56,722,177
Total	<hr/> \$70,697,419	<hr/> \$94,025,000
New Equipment		
Financed through Equipment Trusts		
Series "U"	\$ 305,827	
Series "V"	8,877,453	
	<hr/> \$ 9,183,280	
1952 Budget—Delivered in 1951.....	<hr/> \$ 3,225,924	
Total Expenditures in 1951.....	<hr/> \$83,106,623	

CANADIAN NATIONAL RAILWAYS

ADDITIONS AND BETTERMENTS—GENERAL

(Excluding New Equipment)

	1952 \$	1951 \$	1952 \$	1951 \$
Road	41,769,231	40,965,764		
Less Revotes	15,068,736	12,153,357		
			26,700,495	28,812,407
Subsidiary Companies ...	373,163	285,149		
Less Revotes	Cr. 6,598	Cr. 93,680		
			379,761	378,829
Departments	23,241,856	12,961,576		
Less Revotes	5,743,647	7,845,074		
			17,498,209	5,116,502
Equipment Conversions .	8,101,278	6,006,106		
Less Revotes	2,208,486	2,504,006		
			5,892,792	5,502,100
			50,471,257	37,809,838
Less:				
Equipment Retirements	8,108,000	5,515,772		
Projects Uncompleted.	15,000,000	17,400,000		
			23,108,000	22,915,772
			27,363,257	14,894,066
SUMMARY				
Gross			65,377,528	54,702,823
Less:				
Revotes	23,014,271	22,408,757		
Projects Uncompleted.	15,000,000	17,400,000		
			38,014,271	39,808,757
Net Additions and Betterments—General.....			27,363,257	14,894,066

CANADIAN NATIONAL RAILWAYS FINANCIAL AUTHORIZATIONS—1952 REQUIREMENTS BY REGIONS, DEPARTMENTS, ETC.

	Atlantic Region	Newfound- land District	Central Region	Western Region	Grand Trunk Western	Central Vermont Railway	Other	Total	Revotes
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>ROAD</i>									
New Lines.....	15,525			90,425				105,950	
Rails and fastenings, tie plates and rail anchors.....	707,165	145,266	2,260,722	2,975,728	425,450	94,475		6,608,806	
Ballast.....	422,761	77,009	54,525		270,000	48,904		873,199	
Road-way Betterments.....	141,992	61,521	14,617	152,750	5,500	3,000		379,330	
Large Terminals.....			1,125,000		1,200,000			2,325,000	
Yard Tracks and Sidings.....	403,712	21,890	1,182,309	277,471	28,500	3,190		1,917,072	
Roadway Machines.....	115,422	73,447	513,561	441,150	27,370	42,705		1,213,655	
Bridges, Trestles and Culverts.....	121,680	43,853	709,310	525,380	55,000	18,711		1,473,934	
Tunnels.....				50,000				50,000	
Highway and Crossing Pro- tection.....	53,300		70,000	27,450	33,500			184,250	
Stations and Station Facilities.....	318,551	186,379	567,838	454,654	239,475	4,200		1,771,097	
Water Supplies.....	25,014	3,288	80,146	71,381				129,801	
Fuel Stations.....	229,570	253,260	13,520	400,264	5,800			890,814	
Shops, Enginehouses and Machinery.....	477,219	88,883	633,344	447,714	215,648	25,822		1,888,630	
Docks and Wharves.....			65,453	5,000	93,300			168,753	
Grain Elevators.....				215,500				215,500	
Signals and Interlockers.....	24,535		1,278,007	1,019,783	84,000			2,406,325	
Land.....				7,945				7,945	
General Additions and Better- ments and Contingencies.....	2,343,334	409,930	9,476,505	5,323,221	1,468,196	82,691	2,151,520	21,255,397	15,068,736
Communications—Railway.....							2,546,177	2,546,177	483,081
Communications— Commercial.....							14,358,173	14,358,173	2,248,363
Express and Miscellaneous Equipment.....	1,755		39,943		16,193	2,352	636,539	696,782	81,408
Subsidiary Companies.....							373,163	373,163	6,598
Hotels.....							3,549,447	3,549,447	2,930,795
Equipment.....									
Additions and Betterments.....							8,101,278	8,101,278	2,208,486
Retirements.....							Cr 8,108,000	Cr 8,108,000	
	\$5,351,507	\$1,364,726	\$18,084,800	\$12,485,816	\$4,156,332	\$326,050	\$23,608,297	65,377,528	23,014,271

Less portion of project not completed during year.....	15,000,000	.....
Net General.....	50,377,528	23,014,271
New Equipment.....	31,127,957	.....
Sheridon-Lynn Lake Branch Line.....	7,800,000	.....
Net Additions and Betterments.....	89,305,485	23,014,271
Additional Working Capital.....	15,000,000	.....
Acquisition of Securities.....	516,900	.....
Less:—Amounts available from Depreciation Reserves and Debt Discount Amortization.....	104,822,385	.....
TOTAL REQUIREMENTS.....	17,350,000	.....
	\$87,472,385	.....

**CANADIAN NATIONAL RAILWAYS
NEW EQUIPMENT**

**Estimated
Cost**

- (A) Canadian National Railways Financing and Guarantee Act 1951, Statutes of Canada, Chapter 45, empowered the Governor-in-Council to authorize the National Railway System to incur commitments in 1951 in respect of the units of equipment in columns 1, 2, and 3 hereunder:

	Column (1)	Column (2)	Column (3)
800 HP Switchers	12		
660 HP Switchers	12		
1000 HP Switchers (C.V.R.)	1		
1500-1600 HP Road	24		
1000-1200 HP Switchers	20		
1000-1200 HP Switchers (G.T.W.)	5		
Sleepers			72
Sleepers—Buffet			10
Sleepers—Tourist			20
Parlor			5
Parlor—Buffet			5
Parlor—Cafe			15
Diner			20
Diner (Newfoundland)			1
Coach			47
Coach (G.T.W.)			5
Baggage		60	
Automobile Cars	1000		
Gondolas—Drop End—70 ton	1500		
Gondolas—70 ton	750		
Gondolas—70 ton (G.T.W.)	300		
Hoppers—Triple—70 ton	500		
Hoppers—Triple—70 ton	750		
Hoppers—70 ton (G.T.W.)		500	
Hoppers—Covered—70 ton (G.T.W.)	125		
Hoppers—Covered		125	
Box Cars—50 ton	500	1000	
Box Cars—50 ton (G.T.W.)		350	
Box Cars—50 ton	130	130	
Box Cars—30 ton (Newfoundland)	50		
Flat—Steel Underframe	300		
Flat—Steel Underframe	500		
Stock—Steel Underframe (Newfoundland) ..	10		

Canadian National Railways Financing and Guarantee Act (No. 2) 1951, Statutes of Canada 1951 (Second Session) Chapter 9, authorized in the manner therein set forth the financing of the new equipment tabulated in column (1) above to the extent of \$55,581,816. This equipment has all been ordered and delivery is anticipated prior to July 1, 1952.

Authority is desired for the financing to the extent of \$20,389,043 of the new equipment tabulated in column (2) above, all of which has been ordered and will be delivered in 1952.....\$20,389,043

Authority is also required for the financing of an additional amount of \$8,325,822 by which the currently estimated cost of new equipment, the financing of which was authorized under the provisions of the above noted Statutes, exceeds the estimated cost of such equipment at the time said Statutes were enacted.....8,325,822

Equipment tabulated in column (3) was not ordered in 1951, but it is anticipated that orders can be placed during 1952 and that a portion of such equipment will be delivered in the spring of 1953. Therefore, reauthorization of the ordering of said equipment to the extent of \$43,767,655 is now required.

CANADIAN NATIONAL RAILWAYS—Con.
NEW EQUIPMENT—Con.

Estimated
Cost

(B) New Equipment (1952 additional orders), authority for the ordering and to the extent indicated, for the financing of which must be obtained through the 1952 Capital Budget:

5	600 HP Diesel Electric Switcher	
57	Coaches	
50	Gondola—Ore Type	
1000	Hopper—Ore Type	
50	Flat (Newfoundland)	
25	General Service (Newfoundland)	
25	Refrigerator (Newfoundland)	
12	Snow Plows (Newfoundland)	
3	Snow Plows (Canadian Lines)	
5	Snow Plows—Russell (Canadian Lines)	
3	Gordon Spreaders (Canadian Lines)	
100	Ballast Cars	
30	Air Dumps	
1	Diesel Industrial Hoist (G.T.W.)	
1	Burro Crane (G.T.W.)	
1	Locomotive Crane—25 ton	
	Spare Equipment—Diesel Locomotives (G.T.W.)	
5	Steel Tank Cars—Secondhand (G.T.W.)	
15	Traction Motors—Diesel Electric Locomotives	
4	Traction Motors—Diesel Electric Locomotives (Newfoundland)	
2	Traction Motors—Multiple Unit Cars	
11	Water Transports (AFE 71/294)	
4	Locomotive Cranes (AFE 71/279)	
5	Hopper Cars (Aluminum) (AFE 71/283)	
1	Wrecking Crane (AFE 71/284)	
2	Diesel Engines (AFE 71/293)	

Total cost \$25,059,952, of which \$2,413,092 will be required to cover estimated deliveries during 1952, and also, of which it is anticipated some additional portion will be required for deliveries prior to the enactment of the Canadian National Railways Financing and Guarantee Act of 1953.....

\$2,413,092

(C) New Equipment to be included in the 1953 Budget Program, authority for the current ordering of which, to secure 1953 delivery, must be obtained through the 1952 Capital Budget:

22	600- 660 HP Road Switcher	
1	1000 HP Road Switcher (C.V.R.)	
3	1000-1200 HP Road Switcher (G.T.W.)	
6	1200 HP Road Switcher (Newfoundland)	
70	1500-1600 HP Road	
57	Coaches	
30	Baggage	
1200	Box (Canadian Lines)	
100	Box (Newfoundland)	
500	Gondola (Canadian Lines)	
100	Gondola (G.T.W.)	
300	Hopper (Canadian Lines)	
150	Hopper—Covered (Canadian Lines)	
50	Hopper—Covered (G.T.W.)	
100	Flat (Newfoundland)	
5	Flat—Depressed (Canadian Lines)	
50	General Service (Newfoundland)	
200	Refrigerator (Canadian Lines)	
25	Refrigerator (Newfoundland)	

Total Cost \$56,721,195

It is anticipated that some portion of this equipment will be delivered prior to the enactment of the Canadian National Railways Financing and Guarantee Act of 1953.

Total—New Equipment\$31,127,957

CANADIAN NATIONAL RAILWAYS

ACQUISITION OF SECURITIES

	1951 Budget:	1951 Actual:	1952 Budget:
	\$	\$	\$
<i>Toronto Terminals Railway</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%.....			62,500
<i>Northern Alberta Railways</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%.....	300,000	275,000	250,000
<i>Trans-Canada Air Lines</i> Temporary Deposits made with Canadian National Railways.....		Cr 11,000,000	
<i>Chicago and Western Indiana Railroad</i> Advances under agreement of March 1/36.....	195,000	206,714	202,900
<i>Atlantic and St. Lawrence Railroad</i> Purchase of Capital Stock.....	2,000		1,500
<i>New London Northern Railroad Company</i> Purchase of Capital Stock and redemption of funded debt..	3,215,000	2,672,203	
	3,712,000	Cr 7,846,083	516,900

CANADIAN NATIONAL RAILWAYS

CONSTRUCTION OF NEW BRANCH LINE FROM SHERRIDON TO LYNN LAKE,
PROVINCE OF MANITOBA

Authorized by Chapter 44, Statutes of Canada 1951

Total Estimated Mileage: 155
Total Estimated Expenditures: \$ 14,725,000

A reconnaissance survey to establish the general route was completed on February 5, 1951, and preliminary ground surveys, with relative projected location, were completed on August 30, 1951.

Two parties are presently engaged in staking the location. One party has worked northerly from Sherridon for a distance of 90 miles, and the other party has completed 30 miles southerly from Lynn Lake. This work is well advanced, with only 27 miles remaining to be staked.

Contract for clearing, grading, installation of culverts, construction of timber bridges and concrete substructure for steel bridges over the Churchill River has been awarded to C. A. Pitts, General Contractor Limited, Toronto, the lowest bidder.

Clearing of the right of way has been started. Rock drilling was started at Sherridon on September 29, which is the initial operation for excavation of rock cuts in establishing the roadbed. Track ties, rails, and materials for culvert and bridge construction are being delivered and stock-piled at Sherridon.

It is estimated that the total expenditure on this project for the year 1952 will be \$7,800,000.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

	1951 Budget:	1951 Actual:	1952 Budget:
	\$	\$	\$
<i>Income Account</i>			
Operating Revenues.....	5,692,582	6,808,478	6,261,024
Operating Expenses.....	6,102,120	6,840,054	6,580,062
Net Operating Deficit.....	409,538	31,576	319,038
Vessel replacement fund earnings.....	125,000	130,368	145,500
Interest requirements on 5%—25-year Bonds due 1955, principal amount \$9,400,000.....	470,000	470,000	470,000
Interest on Government Notes and Advances.....	90,462	95,785	90,462
Income Deficiency.....	845,000	466,993	734,000
<i>Capital Budget</i>			
General Betterments.....			58,000

Note:—Funds for Capital Expenditures to be provided from Vessel Replacement Fund.

Mr. GORDON: Perhaps you would like to have me make a few explanatory comments to direct your attention to where you will find particular material. On page No. 1 which is headed "Summary forecast of financial requirements—year 1952—members of the committee will see that we have again stated the figures for income against the same figures which you looked at in the annual report. The estimated figures for 1952 are set against the actual results of 1951, and you will observe we have estimated operating revenue at \$663,090,000, and operating expenses at \$613,828,000. Now, that is nothing better than an informed guess. We, of course, cannot do much better than that, when looking a year ahead, and the basis of our guess is that we are assuming very little change in the volume of freight and passenger traffic as nearly as we can work it out. It does recognize the increased freight rates that we got from the recent decision of the Board of Transport Commissioners, but it does not make any provision for a possible readjustment of wages this year. Reference has been made to the reopening of the contracts which expire in September and, of course, those discussions have yet to take place. We show the income deficiency of \$18,025,000 as compared with \$15,031,996 for the year 1951. That makes no allowance for the effect of any possible recapitalization that the government may be prepared to bring in this session.

Now, I do not think I need to take any more time on this table; it seems to me to be self-explanatory; but if members would like me to deal with each table for questions, I will do so as we go along.

The CHAIRMAN: I think that would be preferable.

Mr. MACDONNELL: What is the reason for the rise of \$5 million in net income charges, excluding interest?

Mr. GORDON: That is covered in page 26 of the annual report. That is due to the fact that we had in the year 1951 certain non-recurring credit items, one representing \$1.5 million book profit on the sale of the Rail and River Coal Company, one representing the figure we discussed on the Abitibi Pulp & Paper sale of land, which we took into account but which you pointed out could be considered a capital gain. Also, there was a final adjustment with the city of Montreal for taxes amounting to \$1 million, representing a long standing case which we settled after about 15 years negotiation.

Mr. MACDONNELL: The increase in interest of \$5 million on government loans, that is due to a change of interest rate and not an increased amount?

Mr. GORDON: Both. The rate charged us by government is based on the current market rates, but the major part of it is due to increased amount.

Mr. FULTON: Could you elaborate on that?

Mr. GORDON: We increased our government advances by \$117 million, of which \$73 million was new. In other words, we increased our borrowings from government and, therefore, the interest charge has increased with increased borrowings. That represents the higher interest costs shown in this estimate and, as I pointed out yesterday, the increased borrowings from government that was not capital expenditure.

Mr. FULTON: Yes.

Mr. GORDON: Then, on the second table there, the capital budget, I have headed it Capital Budget, 1952. This represents what might be called the new requests for 1952. The first item is additions and betterments, totalling \$27,363,257, and if members of the committee will turn to page 5, which is in the same group of papers before you, you will see the breakdown there in respect to those figures. Now, you will see the comparison there. Our road account, that represents actual new expenditures charged to capital account in railway facilities, operating. For instance, rails and rail fastenings, tie plates, rail anchors, bridges, culverts, generally everything going into the operation of the road as such represents the capital portion which is not charged to maintenance in our ordinary operating expenses. The re-vote figure which you see there represents the carry-forward of projects which were previously authorized, generally speaking, but were not processed to completion at the end of the calendar year, and, therefore, they lapsed and had to be re-voted. I think that covers the major items there. You will notice the equipment, additions and betterments there, a figure of \$8 million. That represents the amount that we ourselves spend in our own jobs for converting or for rebuilding existing rolling stock equipment. That is distinct from new equipment. That is rebuilt equipment prepared by the railway in its own shops.

Mr. FRASER: I was going to ask you a question. I understand that there is some agreement between the railway now and one of the oil companies to carry all their oil on the railway instead of in tank trucks. Would that cover tank cars?

Mr. GORDON: No, the tank cars are usually provided under arrangement where we rent them. They are usually rented to us on a mileage basis. Usually, the oil companies themselves have their own oil tank cars. We have some oil tank cars for our own service but, generally speaking, they provide their own.

Mr. FRASER: Under this agreement which I understand you have with an oil company to carry all their oil, I was wondering about that new equipment.

Mr. GORDON: If it is the same one I am thinking of, I am reasonably sure that part of the agreement is that they provide their own cars.

Mr. FRASER: They rent their own cars?

Mr. GORDON: They provide their own cars and we pay a rent for their use as against the freight rate we charge them.

Mr. FRASER: You charge them?

Mr. GORDON: Yes, for hauling them.

Mr. FRASER: For hauling, and you are charging a lower rate than before?

Mr. GORDON: No, you are mixing this up with the agreed charges.

Mr. FRASER: Yes.

Mr. GORDON: Well, the agreed charge was an agreed charge that we entered into with certain oil companies in the west for their undertaking to give us a fixed proportion of their traffic. They did get a better rate than was formerly quoted them. That rate has not yet been confirmed. It has been protested by the truckers and it is now before the Board of Transport Commissioners for adjudication. The interested parties on the other side have the right to appear before the Board and object to our agreed rate, and our case is pending. I would not, therefore, care to express any opinion on the points involved.

Mr. MACDONNELL: I am not sure I understand the figure on page 5, equipment retirements of \$8 million odd. That work was done in your own shops, but what I am not sure about is the way it is treated financially.

Mr. GORDON: This equipment which has been retired from service was obsolete or worn out.

Mr. MACDONNELL: How, exactly, does that operate? You add that into a total figure of \$23 million odd, which you take away from your total requirements of \$50 million.

Mr. GORDON: Yes, but you will find it is put back again later on in another statement. This is only netting it out to show what the effect is for 1952. If you turn back to page 1, the next item of interest is the new equipment. That is, the 1952 orders. It is necessary here for me to give a word of explanation as to why this form of budget is changed from previous presentations. We have run into a situation now that under present day conditions, with the extreme demands on all suppliers and so forth, it is necessary for us to place orders far in advance of the day we may expect to get them. We may place orders this year and see no possibility of getting actual deliveries until 1953 or even into 1954. So you will find as we go on here, that the authority we are asking here, specifically covers what we expect actually to pay for in 1952; but then we are asking for commitment authority whereby parliament will authorize us when this budget goes before it to place orders only; it does not cover the authority for financing because we are actually not going to pay out money until the year in which the equipment is going to be delivered. That is why this year shows \$25,059,952, only \$2,413,000 of which is shown in this part of the budget, being our estimate of the actual amount of money we will be paying out in the year 1952. If you will turn to page 8 you will see a list of the equipment which we are asking for; for which we are now asking approval—on page 8, in the detail there, you will find at the top margin, at the top of page 8, the items which make up the value of \$25,059,952. That makes the requisitions that we are making for the year 1952.

Mr. MACDONNELL: But you are only required to pay a small portion of that in 1952?

Mr. GORDON: We will only need \$2,413,092 in cash this year. The orders will be placed and there will be a legal commitment for them; in other words, when we are able to get all the supplies to take on what we are offering.

The CHAIRMAN: And that will require a re-vote next year?

Mr. GORDON: Yes. It will come under the financing Act of 1953. That is the amount of commitments this year. You will find, a little later on, in your Financing Act that authority will be asked for a firm commitment, a commitment in respect to payment which will be held in reserve; otherwise, the railway would be in a very unsatisfactory position and so would the Minister of Finance. Since we would be placing orders for \$25 million of equipment without having any legal authority to do so and without having the money to pay for such equipment. I have taken the question up with the government and they have agreed that this is the proper way to do it, to get authority in the

Financing Act to make the commitment, and then we will vote the money later on in the budget for 1953 or 1954 as the case may be. Perhaps it will make it a little more clear when you turn to the next page where I deal with the financial authority as distinct from the budget request. And now, you will see that the equipment there is set down in detail. I do not know if there are any particular questions about that. This represents our judgment of the amount of equipment that we really need to either replace or add to our inventory this year.

Mr. FRASER: Is there anything in there on account of signalling equipment?

Mr. GORDON: On account of what?

Mr. FRASER: On account of the signal blocks you put in there in your operations this year.

Mr. GORDON: I am not sure what you mean in that regard, Mr. Fraser.

The CHAIRMAN: Mr. Fraser, the reporter indicates that individual conversations cannot be heard and do not get on the record. If you want them on the record you will have to speak up so you can be heard.

Mr. FRASER: I will use my loud speaker.

Mr. FULTON: How much of a carry-over have you got this year with respect to equipment purchased but not delivered.

Mr. GORDON: I think that you will find that information on the next page. If you will just leave it until I come to the next page you will be shown there.

Mr. FULTON: All right.

Mr. GORDON: This operating, you will find this on page 8. If you will turn it over to the next page, page 9, you will see it deals with the acquisition of securities. Here again, it will help to explain this if you will turn to page 9, and there you will find the budget for 1952. It gives the figures which add up to a total of \$516,900. You will see that this is considerably less than the 1951 budget because in 1951 we financed the New London Northern Railroad Company to the extent of \$2,672,000, and the Chicago and Western Indiana Railroad to the extent of \$206,714; and the Northern Alberta Railways to the extent of \$275,000. There is nothing special in this year. Of that \$250,000 represents our joint contribution with the Canadian Pacific Railway Company to the Northern Alberta Railways; and there is the item there of \$62,500 for the Toronto Terminals Railway, another joint operation. Then there is the item of \$202,900 of advances to the Chicago and Western Indiana Railroad. For the most part this item represents our share of funds required for joint facilities.

Mr. MACDONNELL: What about this acquisition of securities, is that actually the case.

Mr. GORDON: Well, in the case of the New London Northern Railroad Company we actually bought the capital stock.

Mr. MACDONNELL: Yes.

Mr. GORDON: In the case of some of the other items, for instance, the Atlantic and St. Lawrence Railroad, we bought the capital stock, a small amount which was in the hands of the public. Now that you asked the question, I don't know just what—did we get securities for that? I am informed that we actually, when we took our share, we actually took in bonds for the amount, which is the same as it being put into new capital. But we did acquire securities for it; in other words, this represents actually new capital. In the case of the Toronto Terminals Railway, that is an issue of bonds in this amount. The C.P.R. gets part and we get part. Technically speaking, we collect interest on these bonds if the operation earns any profit, on the bonds we hold in that terminal.

Mr. MACDONNELL: These all represent direct expenditures, investment of new capital?

Mr. GORDON: Yes. Now, the item of 15 million for new working capital I think is reasonably self-explanatory. It just represents the fact that we need more dollars these days to handle the accumulation of larger credit account settlements in transit, etc., to finance payrolls in larger amounts; to cover rising inventories. As a matter of fact, and material and supply stocks are pretty close to a \$100 million.

Mr. MACDONNELL: And that all comes under the heading of capital expenditures, but as a matter of fact you get that from the government.

Mr. GORDON: It is the same thing, borrowing from the government is just the same as borrowing from a private bank and putting it into the capital account. And now, turn to page 2, and this year you will find there that we require \$104,822,000 for equipment and so on, and in comparison with the same things for 1951. Now, let us just run down these items.

Now that Mr. Fulton is here I would like to call his attention to the first item of the bottom he will find an explanation of the point in which he was interested; that to the extent of \$12,577,000 in the number one Financing Act of 1951, and \$52,355,000 under the number two Act. That has been authorized. We do not need any further authority for it, but the moneys will be expended this year covering the authorizations that will be given this year; but it is in there and it is not necessary to have it authorized again; it is there simply to remind the committee that the amounts authorized are due to be expended this year but have already been authorized in the Financing Act of last year.

Mr. MACDONNELL: There was no special reason why that figure was used there?

Mr. GORDON: Well, yes, there was. If you go back to the actual equipment requirements for 1951, that covers it. The main item there was that we bought 5,000 box cars because in 1951 we started to get acceleration of traffic which arose out of the defence effort and so on and so forth; and the 5,000 box cars are the major item in that program. To get the details of it you would have to go back to the 1951 budget already approved.

Mr. MACDONNELL: In other words we would have to ask for commitment authority for the whole thing regardless of what you expect you have to pay for in the current year; I mean, you would not have to expect to pay for all of it in the current year.

Mr. GORDON: Yes, that is right. The second item—I mentioned the first item of \$45 million there. Now, the next item, \$7,800,000, is for a portion of the line, the Sherridon-Lynn Lake branch line, which has been approved by statute in which the total cost is estimated at \$14,750,000. We may exceed that by the time we get through; but the amount of \$7,800,000 is what we are asking for this year, and next year we expect to be able to tell you how much the total cost will be.

Mr. FRASER: And is this Sherridon-Lynn Lake branch a conditional type of guarantee the same as the spur line to which you referred this morning?

Mr. GORDON: Yes, it is a similar type of agreement which provides that there will be a fixed sum each year over a period of 20 years and we in turn credit them back a certain drawback on their rail traffic if it exceeds a certain amount; the amount which is guaranteed.

Mr. MACDONNELL: And this is based on a guaranteed minimum amount of traffic and the estimate of other traffic available?

Mr. GORDON: We really divided it in three parts in the agreement we made. Sherritt-Gordon undertook to underwrite \$5 million into this line on a 20 year basis, which with interest will give us, over a 20 year period, about \$7,500,000, and we have undertaken, to credit them with the amount by which operating

earnings exceed the amount which we put into the formula. The second \$5 million was put up by the Canadian National Railways as a capital expenditure, representing our assessment of what we thought we were entitled to spend in putting in that particular line; and then the government has given a subsidy over and above the \$10 million in view of the pressing urgency in getting this line into operation by October of 1953 by reason of the high priority needs of defence contracts. That amount over the \$10 million, represents a bonus for delivery, for the cost of getting the line built within a stipulated time limit. We have had to put in some very extreme and costly methods in order to get it through in time. That is all covered.

Mr. MACDONNELL: There will be other traffic?

Mr. GORDON: There will be some fish and some mineral and so forth. It looks as though Sherritt-Gordon will produce most of the traffic, but there will probably be a certain amount of fish, and there may be other discoveries in the line of minerals.

Now, in the next item here is the figure you were talking about, Mr. Macdonnell; the \$23 million figure for Revotes. The next item is an over-run in the cost of new equipment authorized in 1951. That is on page 2 there, the item of \$8,325,822. In other words, Mr. Fulton, I explained it when you were out; the figures you are looking for you will find in the first item at the bottom of the page. You will find there \$12,577,000, and the \$52 million—I am just using round figures—representing equipment that has already been authorized but which has not been delivered, and we expect that to be delivered during this year, or the greatest part of it; so we do not need any further authority for it, it has been placed in last year's Act. That is the figure in suspense that you were looking for. Well now, that has been exceeded, that \$8,325,000. Obviously, when we put these figures in we put them in on an estimate basis and we estimate as best we can the amounts we require, and that was the amount of the original estimate of the cost of equipment submitted to this committee.

Most of these contracts for equipment have to be estimated on an escalation basis, the base price plus an escalation clause. We need authority for that and that is why this is put in separate, because it is not covered in a previous vote.

The next item for expenditure authority in 1951 is \$20,389,043. You will find a footnote on that there. If you will look at the second footnote you will find that the C.N.R. Financing Guarantee Act of 1951 contains an authorization of orders for \$111 million; and if you turn to page 7 you will find a breakdown of that very large figure; in round figures, \$43,767,000, representing passenger equipment which was not actually placed on order. Well, the Financing and Guarantee Act of 1951 authorizes the expenditure of an item of \$111,512,000. But we only used that authority to the extent of the difference between that figure and \$43,767,000; and that figure is spelled out in page 7, representing passenger equipment tabulated in column 3, which has now been placed on order, and therefore we need to have a supplementary vote.

Mr. FRASER: That is on order now?

Mr. GORDON: That is not exactly on order. We have called for tenders and before going further we need authority and we are requesting it in this budget because technically it is an expenditure authorization which expired at the end of the present calendar year.

Mr. MACDONNELL: You said that you had a commitment for \$111 million odd; is there a breakdown of that on page 7? Really, I think that is what it is.

Mr. GORDON: Yes.

Mr. MACDONNELL: I was just wondering if you could give us more information on these figures.

Mr. GORDON: Some typical unit costs are as follows—mind you these are subject to amendment and are only an indication—is it first class passenger coaches and that sort of thing you want?

Mr. MACDONNELL: Yes.

Mr. GORDON: Well, take these items: sleeping cars, \$245,000; buffet and sleeping cars run about the same. Cafe parlour cars \$242,000; dining cars \$247,000—and these costs really mount up. First class coaches some of which are contained there run about \$155,000.

Mr. MACDONNELL: Just one other question? What about box cars?

Mr. GORDON: A box car is now costing about \$7,300—the last figure we had on box cars.

The total of column 1, if you will look at the table in front of you, comes to \$55,581,000; the total of column 2 comes to \$20,389,000; and the total of column 3 comes to \$43,767,000.

Mr. FULTON: Well, Mr. Gordon, in the footnote on page 7, the bottom note on the page, and also in your annual reports in paragraph 25 you say you do not expect deliveries much before 1953?

Mr. GORDON: Yes.

Mr. FULTON: I am wondering therefore why you now include this \$43 million, as I understand you are, in your budget?

Mr. GORDON: I explained that when you were out. The reason for it is this. We are not asking for a financing authority, we are asking for a commitment authority. I explained that we now need much of what is called lead time, that orders placed this year will not be delivered until 1953 or 1954. We would be in a very fortunate position, having placed \$40 million or \$50 million worth of equipment if we had no legal authority for payments. We are asking this committee and parliament to undertake that commitment—the commitment carries with it the obligation for payment but payment would not be formally authorized until the financing act for the year in which we expect delivery.

Mr. FULTON: That \$43 million is not an actual figure in the budget?

Mr. GORDON: Not at the present time. It will probably appear in the budget of 1953 if we get delivery at that time.

Now, that covers the second note—the next commitment authority. I have really covered the three items there and if you turn to page 8 you will find for 1952—well, I have covered page 8 and the \$2,400,000. I covered the top part in my previous comment. The bottom part on page 8 covers new equipment including the 1953 budget program authority for orders which we get through this arrangement. In other words that is again a commitment authority and we do not expect delivery until 1953.

Hon. Mr. CHEVRIER: \$56 million?

Mr. GORDON: \$56 million, yes.

The bottom note on page 2 is an innovation. This is to take care of the fact that despite our best guesses we cannot tell delivery dates and we might find ourselves in the position of getting deliveries of equipment in the early part of 1953—which is not covered in the budget formally and authority for which we could not get from the committee until we sit at this time next year. To take care of that contingency we ask for authority for the Minister of Finance to make advances if necessary up to an amount of \$50 million against equipment to be delivered in the spring of 1953. Then, that would be formally authorized in the Financing and Guarantee Act of 1953. That is really a petty cash fund, if I may call it that.

Mr. FULTON: Just so call as you do not call it “sundries”.

Mr. GORDON: Otherwise we are up against these legal technicalities. We want to be strictly regular in this thing and we are up against the legal technicality of at least having to have the legal power for the Minister of Finance to advance the money. This regularizes it if it is put through in this form.

Now, if there are no questions on the equipment I suggest that pages 7 and 8 are really the meat of the budget. Apart from that I think we have pretty well covered it—apart from road requirements.

Mr. FRASER: I notice on page 8 under (b) you have 30 air dumps. I imagine that means "pumps".

Mr. GORDON: What did you say?

Mr. FRASER: On page 8 you show "air dumps."

Some Hon. MEMBERS: Cars.

Mr. FRASER: Dump cars are they?

Mr. GORDON: Yes, they are not pumps.

Mr. FRASER: I wondered what it was. It says "air dumps"; it does not say "cars".

Mr. FULTON: Have you any means of knowing or do you know how your program for new equipment acquisition compares with that of the Canadian Pacific Railway, bearing in mind the larger system which you operate? Is it proportional?

Mr. GORDON: It is varied. I do not know if I have the figures but I was looking at them the other day. They have done better than we have in the earlier period but we are catching up now. Over a period of say six years the general relationship is about the same having regard to the size of the system and the amount of traffic handled.

Mr. MACDONNELL: You are speaking now of the acquisition of rolling stock?

Mr. GORDON: The acquisition of rolling stock yes. They started earlier than we did.

The CHAIRMAN: Are there any further questions in regard to the budget?

Some Hon. MEMBERS: Carried.

Mr. POULIOT: Before it carries, Mr. Chairman, did we look at page 6?

Mr. GORDON: Page 6 is the forecast for the actual additions and betterments and upkeep of the roadbed and the road itself and in addition various departments of the railway. It is spelled out there and various headings given you of amounts which are being spent on new lines in regions in which these amounts have been spent. There have been references throughout the course of the report as to the amount of money, for instance which the railway spent on rails, fastenings and so on in the various regions.

If you will look at page 6 you will find that under rails, fastenings, tie plates, and rail anchors, across in tabular form we have shown the amounts spent in each region. Behind that again is a mass of detail breaking it down into thousands of individual items. For the purposes of the committee we have summarized it in this tabular form to give you the comparison.

Mr. McLURE: I notice one item there, highway crossing protection?

Mr. GORDON: Which item?

Mr. McLURE: Highway crossing protection for the Atlantic region, \$53,000.

Mr. GORDON: That usually arises through the Board of Transport Commissioners orders. It usually arises through applications that are made by municipalities and other authorities and it represents our share of the cost as ruled by the Board of Transport Commissioners.

Mr. McLURE: The reason I mention it is we had a very serious accident on the C.N.R. at Traveller's Rest last year which took the lives of three people and left others in a rather precarious position. I was wondering whether there was anything going to be done for that crossing.

Mr. GORDON: Where did you say that was?

Mr. McLURE: Traveller's Rest.

Mr. GORDON: No. That \$53,000 is represented by two items: one at Goose Pond, Nova Scotia, \$13,300 for eliminating a crossing by a diversion of a public highway. The other one is in Thorburn subdivision replacing a highway crossing by an overhead crossing.

Mr. POULIOT: Mr. Gordon, there was some correspondence between the Department of Roads in Quebec, the railway management, and the Transport Board regarding a trestle at Trois Pistoles.

Mr. GORDON: Under this heading?

Mr. POULIOT: Yes.

Mr. GORDON: There are some cases, Mr. Pouliot, during a year where we charge an item of this kind to contingency fund—if it arises as a special matter—but in forecasting our budget, for the purpose of this committee, the only two items we have are the items I mentioned. I would be glad to take a note of it.

Mr. POULIOT: I know there was some correspondence between the Department of Roads in Quebec, the railway management, and the Transport Board. The difficulty was that at Trois Pistoles on the Gaspé highway the Department of Roads was ready to build a concrete trestle but the railway suggested a wooden trestle.

Mr. GORDON: I will look the file up.

Mr. POULIOT: There is another thing. I wonder if you will extend the railway yard at Rivière du Loup. There was a proposal I think to buy some property?

Mr. GORDON: We have one budget item in there for a 625 car capacity yard to be constructed in future years at Rivière du Loup. At the moment all we are doing is acquiring the land. We have not yet put anything in the budget for the construction of the yard.

Mr. POULIOT: You have an item for the purchase of the land?

Mr. GORDON: That is correct, and that item is \$25,000.

Mr. FRASER: On page 6, under acquisition of securities, what is that, a new line that was taken over?

Mr. GORDON: Page 6? That is the item I mentioned before covering the three items—the Toronto terminal and so on.

Mr. FULTON: Mr. Gordon where are you going to put the tunnel in the western region?

Mr. GORDON: The tunnel in the western region?

Mr. FULTON: Yes, \$50,000 for a tunnel?

Mr. GORDON: I will find that for you. That item is abbreviated. It is really relining of an existing tunnel in the Kamloops division, Yale subdivision—and I am quite sure you are aware of that place.

Mr. FULTON: You have got a lot of tunnels there and I had hoped it would be a survey for a new tunnel.

Mr. GORDON: The new item is only a 1952 expenditure of \$60,000. The total cost will be \$250,000 of which \$60,000 will be spent this year and of which \$50,000 will be a charge against capital. The estimated expenditure for 1953 will be \$190,000.

Mr. FULTON: You said once that in your view the line in the Fraser canyon particularly was not yet completed and I think you even went further and said that you were always having trouble with slides. Have you any concrete program at the moment to re-locate that line, or to re-tunnel it?

Mr. GORDON: Yes and no. That line seems to be sliding away all the time and we are always re-locating it. It is a major operation. But in the sense of finding a new route through the mountains the answer is no. We are constantly whittling away on it and trying to improve the bad spots. But as you know, the worst spots are at places where there does not seem to be any alternative.

Mr. FULTON: Perhaps you might go back and tunnel through the mountains.

Mr. GORDON: We have a number of such projects under examination but that is not the whole answer at all. We have done things as I have said, such as put in steel pilings in particular spots, where the best engineering judgment was that that would cure the difficulty; but the next thing we knew, it blew out like that! It meant a cost there from \$150,000 to \$200,000.

Mr. MOTT: You have an item for a large terminus for the Grand Trunk Western in the amount of \$1,200,000.

Mr. GORDON: Yes. That is for the construction of a new freight classification yard at Durand, Michigan; the project is spaced over two years, and the division of expenditures will be as follows: the estimated cost this year will be \$1,200,000; and the estimated cost next year will be \$2,304,000, making a total of \$3,504,000. It is a major project and it arises out of the very large amount of automobile traffic that we handle over that particular line, mostly in conjunction with General Motors, I think. It is profitable traffic, and I might say that this is a project which has been under way for some considerable time.

Mr. FULTON: I notice that you are still going to spend more on signalling and interlocking equipment in the central region than you are in the western region.

Mr. GORDON: Yes and the major reason for that is that we have a project at Hornpayne, which has just about reached completion. I think it will be finished this year.

You must remember that the central region is a very much larger region than the western region, and the total cost of a great number of small projects run up pretty fast in a region of that size. The major item in it was one which was begun two years ago, that of installing centralized control in the Toronto terminals and on the Allandale division.

Mr. FULTON: What is your breakdown for that signal work this year? It is that \$1,019,000 item.

Mr. GORDON: You mean in the western region?

Mr. FULTON: Yes.

Mr. GORDON: Well I will give you the whole thing. The larger items are, first of all, \$250,000 for the Ashcroft subdivision; that covers the installation from Kamloops junction to Ashcroft; it covers the installation of 48.9 miles; and the total cost is estimated at \$500,000; and we hope to complete \$250,000 of the work this year.

Mr. FULTON: That is the block signal system?

Mr. GORDON: That is right; that is \$500,000; and the next one is for the Kashabowie subdivision which is for centralized traffic control, with a single track main line at Atikokan, which is in the Steep Rock area.

Mr. FULTON: Is that in the western region?

Mr. GORDON: Yes. That is a large program and it is necessary, because it is an alternative to building a double track line. We handle a terrific amount of traffic out there, and that is the reason for this centralized traffic control whereby we will speed up the traffic.

Mr. FULTON: What was the first item you gave me?

Mr. GORDON: That was \$500,000 for the Kamloops division, at Ashcroft.

Mr. FULTON: And that is the only mountain stretch that you are going to do this year?

Mr. GORDON: Yes, that is right.

The CHAIRMAN: Are there any further questions?

Mr. DUMAS: On page 6, under the heading "Stations and station facilities", I wonder if Mr. Gordon would tell us if the amount of \$567,838 for the central region includes the cost of rebuilding the station at Senneterre, Quebec, on the transcontinental line?

The CHAIRMAN: That is one we will reserve for a written answer. Now, Mr. Macdonnell?

Mr. GORDON: I think I can give you the answer in just one second. No, I think I had better look into that.

The CHAIRMAN: He is reserving your question for a written answer, Mr. Dumas. Now, Mr. Macdonnell?

Mr. MACDONNELL: I wonder if you would be able to help me trace two figures from page 7 back into the budget. The first one said: "Under the statutes of 1951, the manner of financing the new equipment tabulated in column 1 above was authorized to the extent of \$55,571,816. This equipment has all been ordered and delivery is anticipated prior to July 1, 1952." Where can we trace that back? I hope to find something corresponding to that in the 1951 authorization, but I did not find it.

Mr. GORDON: It is part of the \$111 million I referred to.

Mr. MACDONNELL: Yes, but where do we find that in our 1951 authorization?

Mr. GORDON: If you will turn to page 2, you will find that the comment, the second note there, reads as follows: "C.N.R Financing and Guarantee Act 1951 authorized placing of orders for new equipment during 1951 (with consent of the Governor in Council) amounting to \$111,512,920, including certain passenger equipment now estimated to cost \$43,767,655. This passenger equipment was not ordered during 1951 and reinstatement of the expired authority is now desired."

Mr. MACDONNELL: Oh, it was allowed to expire?

Mr. GORDON: Yes; and now we are re-voting it, to all intents and purposes.

Mr. FRASER: On page 6, under "Hotels," there is an amount shown in the sum of \$3,549,447; and there is also a re-vote on that. What is that amount for?

Mr. GORDON: Mostly for the Macdonald Hotel, and the Newfoundland Hotel. The Macdonald at Edmonton and the Newfoundland hotel in St. John's.

Mr. FRASER: For those two hotels?

Mr. GORDON: Yes.

The CHAIRMAN: Are there any further questions on the budget?

Mr. GILLIS: Is there any intention to extend or renovate the hotel in Halifax?

Mr. GORDON: We have nothing immediately before us. The question has been raised, and I received an examination report to show what was possible in the form of the construction of the hotel; but we are not at the moment

considering a definite investment. It is merely in the first investigation stage. It could be expanded on its present location; but whether or not it would be a justifiable capital expenditure is something which needs more consideration.

Mr. GILLIS: The hotel is not adequate to take care of the present business.

Mr. FRASER: What is the total amount with respect to the Newfoundland hotel?

Mr. GORDON: You mean in this budget?

Mr. FRASER: Yes.

Mr. GORDON: I think the grand total for the Newfoundland hotel is about \$1 $\frac{1}{4}$ million because of the modernization of the Newfoundland hotel but the amount which we re-voted this year is \$838,000; but as I have said, the grand total, when the job is finished, will be about \$1,235,000.

The CHAIRMAN: Are there any further questions on the budget? If not, is the budget carried?

Carried.

Mr. FULTON: On the steamship budget I see you are expecting a reduction on the Canadian National Steamships. Why is that?

Mr. GORDON: I am sorry, but I could not hear you.

Mr. FULTON: You anticipate a decline in revenue on the West Indies steamships, at page 11. Why?

Mr. GORDON: Just one moment until I find that. You are now talking about our forecast as compared with our actual?

Mr. FULTON: Yes.

Mr. GORDON: My report, which I received on this matter, reads this way:

During the first three months of 1952 our tonnage and revenue exceeded the estimate, but for the balance of the year it is extremely difficult to forecast what the results may be, due to the uncertainty of the amount of dollars that will be available to West Indies merchants; furthermore, the entire shipment of flour to Jamaica for April (70,000 bags) has been purchased from United States mills for shipment through United States ports.

Effective March 3rd southbound freight rates to Bermuda and the eastern group were increased 10 per cent with the exception of flour and fish. The flour rate to Jamaica, which was extremely low, was increased 18 per cent effective February 1st.

This is our best guess of what we expect to happen in terms of the prospects as we see them now, but I would not be too confident about them because they may change materially.

Mr. FULTON: Is the loss of the flour shipments a major blow to you?

Mr. GORDON: It seems to be, yes.

The CHAIRMAN: Are there any further questions on the budget?

Mr. FOLLWELL: I would think that along with an item for the requirements by regions there would be something with respect to the expected revenue by regions?

Mr. GORDON: No, we do not try to break it down that way. Our estimates for revenue are a sort of calculated figure and we do it by a sort of percentage guess.

Mr. MACDONNELL: You say that authority is required for financing to the extent of \$30 million. I find that in the budget. Then you say later: "our authorization of the order to the extent of \$43 million". Is it because it is a re-order that it does not appear? I refer to the second line on page 7.

Mr. GORDON: Let me put it this way: We had a financing guarantee which authorized us to buy \$111 million of equipment; but in point of fact we did not place orders for passenger equipment, which would be a component of that \$111 million. Therefore, because we did not place the orders, we have to start afresh, so far as our authority is concerned. But if we had placed orders, we would not have needed to come back for authority, because, under the Act, if we had placed orders, it would have been all right. But we did not place orders, so we have taken the \$43 million portion of it and are asking the new authority.

Mr. MACDONNELL: That is not in your budget? Where is that?

Mr. GORDON: That will not be in the financing budget until we actually know what we will get deliveries of. That is why I have the \$50 million contingency fund down here. We have asked for tenders on this passenger equipment which will cost us, roughly, \$43 million, more or less, but I have not the faintest idea of the delivery dates, it may be one, two, or three years away. We are asking you to give us authority to order the equipment. That is a commitment authority, and then when we know when we have to pay for it, whenever it is, we will come back to the committee and ask you for financing authority.

Mr. MACDONNELL: Where does that leave you if you get it early next year?

Mr. GORDON: If we get it early next year we won't have any financing authority except that you are giving to us in this \$50 million contingency fund, and if the Minister of Finance has to lend us the money, then in the Act of that year parliament will be asked to authorize that.

Mr. CARTER: Is there any provision for additional coastal boats in this?

Mr. GORDON: No, there is no provision in this budget, but the question of getting the specifications and the tenders of the coastal boats in Newfoundland is well in hand and we hope to have it in our budget for next year, certainly.

Mr. GILLIS: Would you take enough money out of that budget to establish a small diner on that night train from Halifax to Sydney?

Mr. GORDON: That is a matter under advisement, too.

The CHAIRMAN: Shall the budget carry?

Carried.

Gentlemen, you are working hard. There are just two other items, which I think we will have no trouble in clearing up by six o'clock and not have an evening sitting. If you will turn to the Canadian National Securities Trust statement.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 21st March, 1952.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees of The Canadian National Railways Securities Trust submit the following report for the calendar year 1951.

There were no transactions during the year affecting the book value of the capital stock of the Securities Trust; therefore the amount shown on the balance sheet at December 31, 1950, remains unchanged.

Application was made by the Canadian National Railways for the release, for cancellation and cremation, of the following Canadian Northern Pacific Railway Company securities which matured on April 2, 1950:

1. £ 550,000 (\$2,676,666.66) 4% First Mortgage Guaranteed Debenture Stock (secured by mortgage dated April 2, 1910).
2. £ 417,000 (\$2,029,400.00) 4½% First Mortgage Guaranteed Debenture Stock, Branch Lines (secured by mortgage dated March 6, 1914).
3. £ 464,581 (\$2,260,960.87) 4½% First Mortgage Guaranteed Debenture Stock, Branch Lines (secured by mortgage dated March 6, 1914).
4. £ 1,027,397 (\$4,999,998.73) 4½% Second Charge Guaranteed Debenture Stock (secured by mortgage dated June 23, 1914).

The securities described under items 1, 3 and 4 were held by the Securities Trust as part collateral in respect of indebtedness of the Canadian Northern Railway Company to the Government of Canada refunded by the Government under Chapter 24 of the Statutes of 1917 and Chapter 11 of the Statutes of 1918, and the securities described in item 2 were held by the Securities Trust as part collateral for the 6% loan of \$1,887,821.16 made by the Government of Canada under the War Measures Act of 1918 to the Canadian Northern Railway Company.

Under authority of Order in Council P.C. 509, dated February 1, 1951, the matured securities mentioned above were released and have been cancelled and cremated.

The Trustees present herewith the balance sheet as at December 31, 1951.

J. C. LESSARD,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
BALANCE SHEET AT 31ST DECEMBER, 1951

ASSETS

Claims for Principal of Loans—

Canadian Northern Railway	\$312,334,805.10
Grand Trunk Railway	118,582,182.33
Grand Trunk Pacific Railway	116,006,599.08
Canadian National Railway Company	96,936,971.75

Claims for Interest on Loans—

Canadian Northern Railway	\$309,702,897.65
Grand Trunk Railway	103,250,802.95
Grand Trunk Pacific Railway	107,326,622.84
Canadian National Railway Company	54,501,313.57

Transactions subsequent to 1st.

January, 1937, affecting the book value of the capital stock of the Securities Trust—

Canadian National Railway System:	
-----------------------------------	--

	Year 1951	Total to Date
Surplus Earnings	\$112,502,061.64
Capital Gains	19,105,651.38
Capital Losses	23,127,015.88

Collateral Securities—

As per Schedule A.1.
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LIABILITIES

Capital Stock Owned by His Majesty—

5,000,000 shares of no par value capital stock: Initial stated value	\$270,037,437.88
--	------------------

Gain from transactions subsequent to 1st. January, 1937—per contra

108,480,697.14	\$ 378,518,135.02
----------------	-------------------

\$ 643,860,558.26

574,781,637.01

Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value

.....	948,604,757.39
<u>\$ 1,327,122,892.41</u>	<u>\$ 1,327,122,892.41</u>

T. J. GRACEY, Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1951. There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1951, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

9th February, 1952.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST
*Notes and Collateral Held

SCHEDULE A.1

Loans Outstanding

CANADIAN NORTHERN RAILWAY:

3½% Loan, Chapter 6, 1911.....	\$ 2,396,099.68	None.	Charge is on premises mortgaged October 4, 1911.
4% Loan, Chapter 20, 1914.....	5,294,000.02	None.	
5% Loan, Chapter 4, 1915.....	10,000,000.00	None.	
6% Loan, Chapter 29, 1916.....	15,000,000.00		Mortgages dated June 23 and June 26, 1916.
Temporary Loan, 1918, repaid.....		6% Demand Notes.....	\$ 497,566.80
+6% Loan, Chapter 24, 1917.....	25,000,000.00	6% Demand Notes.....	33,012,414.32
+6% Loan, Vote 110, 1918.....	25,000,000.00	6% Demand Notes.....	27,203,003.65
+6% Loan, Vote 108, 1919.....	35,000,000.00	6% Demand Notes.....	40,031,122.27
+6% Loan, Vote 127, 1920.....	48,611,077.00	6% Demand Notes.....	53,008,779.65
+6% Loan, Vote 126, 1921.....	44,419,806.42	6% Demand Notes.....	50,259,312.47
+6% Loan, Vote 136, 1922.....	42,800,000.00	6% Demand Notes.....	46,691,634.60
6% Loan, War Measures Act, 1918.....	1,887,821.16	{6% Demand Note.....	5,700,000.00
+6% Equipment Loan, Chapter 38, 1918.....	56,926,000.82	{3½% and 4½% Debenture Stocks.....	5,109,999.99
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918....		6% Demand Notes.....	56,858,496.44
+Mortgage covering loans above.....		{Miscellaneous Bonds and Debentures.....	14,097,470.59
		{Miscellaneous Bonds and Debentures.....	10,783,564.86
		Mortgage dated November 16, 1917.....	

Total Canadian Northern.....\$312,334,805.10

GRAND TRUNK RAILWAY:

6% Loan, Vote 478, 1920.....	\$ 25,000,000.00	6% Demand Notes.....	\$ 25,479,236.97
6% Loan, Vote 126, 1921.....	55,293,435.18	6% Demand Notes.....	56,646,816.12
6% Loan, Vote 137, 1922.....	23,288,747.15	6% Demand Notes.....	23,288,747.15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000.00	{4% Demand Note.....	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans.		{4% G.T.P. Debentures.....	15,000,000.00
		{4% Debenture Stock.....	60,801,700.00
		{6% 2nd Mortgage Equipment Bonds.....	1,693,113.33
Total Grand Trunk.....	\$118,582,182.33		

GRAND TRUNK PACIFIC RAILWAY:

3% Bonds, Chapter 24, 1913..	\$ 33,048,000.00
6% Loan, Chapter 4, 1915.....	6,000,000.00
6% Loan, Vote 441, 1916.....	7,081,783.45
6% Loan, Vote 444, 1917.....	5,038,053.72
6% Loan, Vote 110, 1918.....	7,471,399.93
Receiver's Advances, P.C. 635, March 26, 1919.	45,764,162.35
Interest guaranteed by Government of Canada	8,704,662.65
Interest guaranteed by Provinces of Alberta	
and Saskatchewan ..	2,898,536.98
Agreement with Government under Chapter	
71, 1903 .....	.....

Total Grand Trunk Pacific.....

\$116,006,599.08

CANADIAN NATIONAL RAILWAY COMPANY:

6% Loan, Vote 139, 1923..	\$ 24,550,000.00
5% Loan, Vote 137, 1924.....	10,000,000.00
5% Loan, Vote 377, 1925.....	10,000,000.00
5% Loan, Vote 372, 1926.....	10,000,000.00
5% Loan, Vote 336, 1929.....	2,932,652.91
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400.85

3% 1st Mortgage Bonds.....	\$ 33,048,000.00
4% Sterling Bonds.....	7,499,952.00
Mortgage, June 28, 1916.....	.....
Mortgage, October 18, 1917.....	.....
Mortgage, October 18, 1917.....	.....
Receiver's Certificates	53,339,162.74
Cremation Certificates, coupons destroyed....	8,698,170.42
Cremation Certificates, coupons destroyed.....	2,925,723.88
Grand Trunk Pacific Development Company	
Capital Stock	2,999,000.00

{ 6% Canadian Northern Demand Note.....	\$ 12,655,019.57
{ G.T.P. Receiver's Certificates	3,313,530.01
{ G.T.P. Interest Coupons.....	1,530,831.96
{ 5% Canadian Northern Demand Note.....	1,318,315.86
{ G.T.P. Receiver's Certificates	4,691,173.58
{ G.T.P. Interest Coupons.....	1,530,822.24
{ 5% Canadian Northern Demand Note.....	9,496,718.21
{ G.T.P. Receiver's Certificates.....	Cr. 1,422,425.17
{ G.T.P. Interest Coupons.....	1,530,802.80
{ 5% Canadian Northern Demand Note.....	9,062,624.30
{ G.T.P. Receiver's Certificates.....	Cr. 364,898.78
{ G.T.P. Interest Coupons.....	1,530,880.56
5% Canadian National Railway Company	
Demand Notes	2,932,652.91
5% and 5½% Canadian National Railway Com-	
pany Demand Notes	29,910,400.85

forward

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST SCHEDULE A.1—*Concluded*
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST
**Notes and Collateral Held*

Loans Outstanding

CANADIAN NATIONAL RAILWAY COMPANY—*Concluded*

5½% Loans, Chapter 6, 1932. \$ 11,210,815.56

Temporary Loan, 1930, repaid.

Less: adjustment authorized by the Capital
Revision Act, 1937. Cr. 1,666,897.57

Total Canadian National Railway
Company \$ 96,936,971.75

Total Loans \$643,860,558.26

5½% Canadian National Railway Company
Demand Notes \$ 11,210,815.56

{ 166,877.6376 shares of Capital Stock of Grand
Trunk Western Railroad 4,171,940.94

{ 5% 1st and General Mortgage Temporary Gold
Bonds of Central Vermont Railway, Inc. 8,609,000.00

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depository.

The CHAIRMAN: There is no change from last year.

Mr. FULTON: I do not understand why there is no change because it says on page 5 that application was made by the railways for the release, cancellation and cremation of the following securities which matured on April 2, 1950, and then it lists them there all in sterling, and there are, roughly, £2,500,000 sterling worth of them. If they matured and were cremated, how is it there is no change in the balance sheet?

Mr. GORDON: The only man in Canada or in the world who can explain that is Mr. Cooper.

Mr. FULTON: Mr. Turville, the representative of the auditors of the company says that he objects.

Mr. COOPER (Vice-President, Canadian National Railways): The statement that there was no change refers to the balance sheet. There was no change in the balance sheet, but there was a release of certain of the collateral securities held by the trust. Certain securities matured and it was desired to discharge the mortgage and get release from the trustees. The securities had to be taken from under the trust and they were withdrawn and cremated. There is no change in the balance sheet position of the trust.

Mr. FULTON: Was something substituted for those securities which left the overall position the same?

Mr. COOPER: It did not affect the overall position. It is just collateral security.

The CHAIRMAN: Shall the Canadian National Securities Trust report carry?

Carried.

Now, we come to the auditor's report. The auditor is here. He will answer any questions, as usual.

Mr. MACDONNELL: Just before you come to that, is there any man in the world who can explain to us in two minutes just what function this sort of a buffer state is discharging?

The CHAIRMAN: While we are waiting for the auditor to get settled, I have answers by Mr. Dingle to five questions I would like to table. There were several other questions asked that required written answers which will be supplied direct to the member concerned.

The first answer is entitled Port Hope-Millbrook, and reads as follows:

PORT HOPE-MILLBROOK

Work of dismantling line between Port Hope and Millbrook was commenced June 4 and completed July 14, 1951, from Mileage 3.35 north of Port Hope to Mileage 17.97, which is at Millbrook.

No steps have as yet been taken towards disposal of right-of-way, although that is the intention, in order to get full benefit from abandonment of line, avoiding maintenance costs of drainage, fencing, etc., or the claims in connection therewith. It is definitely not the intention to retain the right-of-way between Mileages 3.35 and 17.97 for future use.

For two miles out of Port Hope there are industries and we will continue to serve same. From Mile 2.0 to 3.35 our line has been left intact temporarily to serve the Trans Northern Pipeline Company, who are presently bringing in construction materials. We plan on removing the last 1.35 miles of track approximately at the end of the current year, when it is expected the pipeline company will have finished the work of transporting equipment.

The second answer is entitled St. Malo Shops, and it reads as follows:

ST. MALO SHOPS

Mr. Pouliot asked yesterday as to what points cranes from St. Malo were transferred following the closing of that point as a locomotive shop. There was only one crane suitable for lifting locomotives; this was originally a 120-ton capacity crane, later, I believe, increased to 200-ton capacity. Consideration was given to the transfer of this crane to Riviere du Loup, Point St. Charles, or Moncton.

As to Riviere du Loup, the pits are longitudinal, whereas St. Malo Shop pits were transverse, and for this reason the crane was not suitable for Riviere du Loup. Besides this, columns and girders in said shop were only built to take 60 tons, and furthermore, the column centres of the shop could not be changed to take the crane length which measured 73' 8 $\frac{3}{4}$ ", as against centres of 66' 0".

For various reasons, this crane was not suitable for Point St. Charles, or Moncton either. Said crane, therefore, was not used in Railway service.

The third is a table showing the miles of 56# rails in the Atlantic and Central regions, and this statement will be incorporated in the record as an appendix to today's proceedings (See Appendix A).

The fourth answer is to a question by Mr. Carter on pensions, and reads as follows:

Mr. CARTER:

What pension benefits would an employee of the Newfoundland Railway be entitled to assuming he had 8 years service prior to the date of union and, say 9 years subsequent service?

Mr. COOPER:

- (a) Under Canadian National rules he needs 20 years service to qualify for full pension benefits, and as the employee in this instance did not have the required amount of service he would not be entitled to benefits from Canadian National. This is in accordance with the agreement reached with the labour representatives.
- (b) Under this same agreement the employee in question would be eligible for pension benefits in respect of his service prior to the date of union. This benefit would be computed under the rules and regulations in effect prior to the date of union which were the Civil Service pension rules applied to employees of the Newfoundland Railway. The pension would be the average compensation during the last 3 years of service prior to March 31, 1949 multiplied by 1 $\frac{3}{4}$ per cent for each year of service. This pension is paid in the first instance by Canadian National but is re-collected from the Provincial Government.
- (c) We understand that the Federal and Provincial Governments have under consideration the contention which has been made on behalf of the men that in such a case the employee is entitled to pension benefits for his entire service.
- (d) The above assumes the employee did not contribute to the Canadian National Pension Fund. An employee, however, could elect to make contributions. He could contribute to the C.N. Fund from the date of union but there would be no matching contributions during the first 2 years; thereafter his contributions would be matched by the Company and he would be entitled to an annuity in the amount which the joint contributions with interest would buy.

The fifth is in answer to a question asked by Mr. Dumas.

Mr. DUMAS asked. "Have there been any negotiations entered into with respect to acquiring a right of way through Range 7 in the township of Barraute, for the purpose of acquiring land required for the right of way?"

It is our understanding that the right of way required in Range 7 is owned by Barvue Mines Ltd. If however this request is in connection with land owned by Mr. Therrien, negotiations have been in hand with this man on several occasions, and while a previous settlement was made this had to be changed due to relocation of the line. We have now received a final option from this man which is presently being studied.

Hon. Mr. CHEVRIER: I have one in answer to Mr. James. It is in my own handwriting and perhaps I had better read it. On June 2, 1950 the city of Oshawa sent an application to the Board of Transport Commissioners for an order requiring the Canadian National Railways to remove certain tracks. On June 9, 1950, the Secretary of the Board of Transport Commissioners advised the city of Oshawa that the Board had no power to order the Canadian National Railways to remove their tracks.

Mr. MACDONNELL: I will state it briefly. Just explain to us why about this Canadian National Railways Securities Trusts; what useful function does it discharge? Is it a legal company?

Mr. TURVILLE (representing George A. Touche & Co., Auditors): It is a legal company to preserve the rights of the Canadian National Railways in the securities that they hold, and as you know—

Mr. MACDONNELL: Who owns the stock of the Canadian National Railways Securities Trusts?

Mr. TURVILLE: It is owned by the Government of Canada. There is a recommendation in that regard by the royal commission that it should be acquired by the Canadian National Railways itself.

The CHAIRMAN: Could we have order, please?

Mr. MACDONNELL: One other question. I notice the balance sheet here states you have a balancing figure of \$948,000,000, which is titled, amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value. Would you explain that. How is that figure arrived at? Is that just a balancing figure?

Mr. TURVILLE: Yes, it really shows the equity and is correctly described on the balance sheet.

Mr. FULTON: In other words, the claims against this exceed by that amount the value of the securities?

Mr. TURVILLE: That is correct.

The CHAIRMAN: Any further questions, Mr. Macdonnell?

Now we come to the auditors' report.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
LEWIS BUILDING
465 ST. JOHN STREET
MONTREAL 1

17th March, 1952.

CANADIAN NATIONAL RAILWAY SYSTEM

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir, We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1951 under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income Account and certification thereof.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

REPORT OF ROYAL COMMISSION ON TRANSPORTATION

In previous reports, we have called attention, among other matters, to the disproportionate ratio of Fixed Charges in comparison with other railways in North America, and also to the desirability of a uniform system of accounting for Canadian railroads.

Under date, the 9th February, 1951, the report of the Royal Commission on Transportation pursuant to Order in Council P.C. 6033 of the 29th December, 1948, was published. Among other matters, the Commissioners were required:

- (i) To review the capital structure of the Canadian National Railway Company, and report on the advisability (or otherwise), of establishing and maintaining the fixed charges on a basis comparable to other major railways in North America.

In this regard the Royal Commission recommended a very substantial downward revision of the fixed charges of the Canadian National Railway Company.

- (ii) To review the present day accounting methods and statistical procedure of railways in Canada, and report upon the advisability of adopting (or otherwise), measures conducive to uniformity in such

matters, and upon other related problems such as depreciation accounting, the segregation of assets, revenues and other incomes, etc., as between railway and non-railway items.

In this regard, the Royal Commission recommended that the Board of Transport Commissioners be empowered and directed to prescribe as soon as practicable:

- (a) A uniform classification and system of accounts and reports for all rail items for the Canadian National and Canadian Pacific Railways and a simplified classification of such accounts and reports for other railways, and
- (b) The classes of property for which depreciation may properly be charged in the rail accounts for all railways subject to its jurisdiction, and the rate or rates to be charged in respect to each class.

These recommendations which were embodied in the amendments to the Railway Act dated the 30th November 1951, have not yet been implemented.

CONSOLIDATED INCOME ACCOUNT

Depreciation and Maintenance

In respect of "depreciable" fixed properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—provision for depreciation, at rates resulting in a composite rate of approximately 1½ per cent, has been made during the year for the United States Lines of the System through the appropriate maintenance accounts in accordance with the above mentioned Order whereas the Canadian Lines have taken up through the maintenance accounts provided therefor the loss of service value at the time of replacement or retirement.

Track structure composed of ties, rails, track material and ballast is not classified by the Interstate Commerce Commission as an asset for which provision for depreciation should be made; accordingly the loss of service value was taken up through Maintenance of Way and Structures accounts at the time of replacement or retirement on both the Canadian and United States Lines of the System.

Provision for depreciation has been made for the equipment of both the Canadian and United States Lines of the System. The 3½ per cent annual depreciation rate used for rail equipment of the Canadian Lines was approximately the same as the latest available composite of the rates used by Class I Railroads in the United States.

In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the maintenance account as a whole included the cost of day-to-day repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

We have received certificates from the responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit such physical retirements which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the Accounting department.

Insurance Fund Operations

The operations for the year resulted in a profit of \$455,000 which was credited to railway income. During the year the Railway contributed \$600,000 to the fund, which was charged to railway operating expenses.

CONSOLIDATED BALANCE SHEET

Assets

Against the Corporate portion of the property investments brought into the National System accounts at the 1st January, 1923, there have been properly applied reductions authorized by The Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st January, 1923, the additions and betterments less retirements of the System have been shown on the general basis of cost. It should be pointed out, however, that, with the exception of two vessels paid for by the Government of Canada, no value has been placed on the property investments taken over from the Newfoundland Railway as at the 1st April, 1949.

The several special funds including Capital and Other Reserve Funds, Insurance Fund and Pension Contract Fund, amounting in total to \$81,621,000 are represented by investments in the securities of the Government of Canada, the National System and securities of or guaranteed by the provinces, together with cash and sundry current assets. At the year end, System securities included in these special funds aggregated \$15,492,000 of which par value \$11,529,000 is covered by the guarantee of the Government of Canada. These securities were valued at par. Securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to \$61,049,000 were based on cost which exceeded the market value by 7.48 per cent.

Investments in Affiliated Companies are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. The amount appearing on the Balance Sheet under this heading is after deduction of deposits during the year with the Railway by the Trans-Canada Air Lines totalling \$11,000,000. The 1951 Financial Statements issued by the companies representing the largest investments other than the Trans-Canada Air Lines indicated that profits aggregated some \$1,542,000 and losses some \$4,000 for the year 1951.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and are valued at or below cost. The balance is represented by securities of the Government of Canada, the Government of the United States, and the National System (Government Guaranteed), the book figure of which is based on cost for Government bonds and par for securities of the National System. The cost of the securities of the Government of Canada included therein exceeded the market value by 4.47 per cent. The market value of United States Government securities was slightly in excess of cost.

Temporary Cash Investments are represented by Government of Canada securities. At the year end the book figure, based on cost, exceeded the market value by 5.40 per cent.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of Material and Supplies was taken by the Railway as at the 30th September, 1951 and in connection therewith we have received certificates from the responsible officers to the effect:

- (a) That the quantities were determined by actual count, weight or measurement or by conservative estimate where such actual basis was impracticable, and
- (b) That the inventory pricing was laid down cost based on weighted average cost for ties, rails and fuel and on latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Ledger values as of the 30th September were brought into agreement with the physical inventory through a credit to railway operating expenses of \$18,000.

Other Deferred Assets consist principally of Contracts Receivable in connection with land sales and sundry deferred accounts collectible.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Deferred Liabilities

In addition to the Pension contract reserve these liabilities consist principally of the outstanding capital value of workmen's compensation awards by the Provinces of Ontario and Quebec, together with pension provisions covering employees who have reached retirement age and have been either retained in service or recalled from retirement.

Reserves and Unadjusted Credits

Accrued depreciation of Canadian Lines equipment amounts to \$157,535,-000. During the year the full ledger value of equipment retired, less salvage, was charged to this reserve.

Unadjusted Credits include the estimated proportion of prepaid revenues on freight in transit; excess of actual revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows—

- (a) United States Currency
 - at the dollar par of exchange.
- (b) Sterling Currency
 - at the former par of \$4.86 $\frac{2}{3}$ to the pound.
- (c) French Currency
 - at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 300 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,
GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.
 CHARTERED ACCOUNTANTS
 LEWIS BUILDING
 465 ST. JOHN STREET
 MONTREAL 1

17th March, 1952.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

THE HONOURABLE THE MINISTER OF TRANSPORT,

OTTAWA, CANADA.

Sir,—We have audited the accounts of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1951, and we now report, through you to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income and Profit and Loss Accounts and certification thereof.

CONSOLIDATED INCOME ACCOUNT

Provision for depreciation on vessels was made during the year on the following bases:

- (a) The three diesel powered and refrigerated vessels—5 per cent;
- (b) The two "Lady" vessels and the five non-refrigerated vessels—3 per cent.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the accounting department.

CONSOLIDATED BALANCE SHEET

Assets

Investment in vessels is carried on the general basis of cost less accrued depreciation.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Province of Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was 8.18 per cent less than cost.

The Replacement Fund increased \$372,000 during the year as a result of depreciation accruals charged to Income Account and paid into the fund.

The Insurance Fund increased during the year by \$274,000. The insurance risks on all ships are carried in the Fund.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

Discount on capital stock represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the steamships' bonds.

Unadjusted Credits

This account includes freight and passage money paid in advance at 31st December, 1951; the corresponding item at 31st December, 1950, was shown separately on the Balance Sheet at that date.

Where foreign currencies are involved the Balance Sheet accounts of the steamships are converted generally as follows:—

(a) U.S. Currency—at the dollar par of exchange;

(b) Other Foreign Currencies—at the current rates.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

I notice that there are no special recommendations in this report. You find everything in order?

Mr. TURVILLE: Yes, in the course of our audit we found everything in order. We made reference to the report of the royal commission because we thought that was the proper place to bring it to the attention of the committee, since something has happened since our last report, something vitally important to the Canadian National Railways.

Mr. McLURE: I see you carry the pound sterling at \$4.86 $\frac{2}{3}$.

Mr. TURVILLE: That is so, and I know what you are going to say, Mr. McLure, that it is very unrealistic.

The CHAIRMAN: Shall the auditors' report carry?

Mr. FULTON: Give us a little bit of time to look it over.

Hon. Mr. CHEVRIER: You have had it for three weeks now, Mr. Fulton!

Mr. FULTON: I only had time to read one of them, and that was this big one.

Mr. FOLLWELL: Is there any proposal for re-financing the capital structure of the Canadian National Railways?

Hon. Mr. CHEVRIER: Perhaps I had better answer that by saying it is still under study.

Mr. FULTON: I would like to ask a question which seems amateurish. There is an item of \$300,000,000 in real worth of securities in the securities trust. Why cannot those be sold and used for the purpose of repaying some of this capital debt that worries Mr. Gordon so much?

Mr. TURVILLE: I think you would find it rather difficult to sell or realize the claims listed on the Balance Sheet as the nature of the collateral security held indicates.

Mr. GORDON: It would merely be acquiring another interest liability. It would be the same as borrowing money from the public. If we raised \$300 million in capital by selling securities to the public, it would mean somebody would have to pay interest on that obligation. It would be the same as if the Canadian National Railways went into the market and borrowed \$300 million.

Mr. FULTON: I suppose it would, but I do not quite see that. If I sell, or somebody holds for my benefit a bond or security worth \$1,000 and I need \$1,000, so my trustee sells that bond and gives me the thousand which I use to pay off the mortgage on my house, surely my position has improved.

Mr. GORDON: Yes, but the essential point you have missed is, it is the obligant of the bond who is going to pay the interest on that bond.

Mr. FULTON: Say what you mean.

The CHAIRMAN: Gentlemen, I think we have concluded our inquiry. When would it be convenient—

Mr. FULTON: I am not through.

The CHAIRMAN: You are not serious, Mr. Fulton. You understand that, do you not? I do.

Mr. PICARD: Do you mind explaining it?

The CHAIRMAN: If I am going to authorize somebody to sell a promissory note that I have signed, I am certainly going to have to pay that some time.

What time would be convenient to the committee tomorrow to consider any special recommendations which the committee want to make in regard to our work, if any? It being caucus day, how about four o'clock tomorrow afternoon?

Agreed.

Before we leave, I do want to express my appreciation to members of the committee. I do not serve on any other committee in the House with more enjoyment than this one, and that is because the members co-operate so well and it is because we have such an able witness in Mr. Gordon. He does make a wonderful presentation. On behalf of the committee, Mr. Gordon, I would like to convey the appreciation of the committee to you, your staff and all employees for the tremendous job which you are doing so well.

Mr. GORDON: Mr. Chairman, I do want to express my appreciation of the courtesy and consideration we have received at the hands of yourself and all the members of the committee. Both in the pages of the annual report and in replying to the questions raised in discussion we have tried in a spirit of frankness to explain our activities over the past year and to set before you our plans and policies as affecting the future. I think that this stage in the affairs of the Canadian National can be characterized as one of transition. We have entered upon a period of fairly concentrated change in which the railway must make adjustments—not always easy—not always pleasant—in recognition of the steady advance in technology within the railway industry and in the field of transportation generally. It will be our endeavour to keep the Canadian National abreast of these changes, and in so doing keep pace with the growth in the Canadian economy.

Now, Mr. Chairman, there is another matter to which I would like to direct the attention of yourself and of the committee before I sit down, and that is the unfortunate fact that Mr. Cooper brings to an end his association with this committee that extends over the past 28 years. Mr. Cooper, who has been the guiding genius behind the Canadian National accounting systems and methods since 1923, has attended proceedings of this parliamentary committee every year since 1923; and, on September 30 of this year, having reached the age of 65, he will begin a well earned retirement. I would like, if I may, to take this occasion to pay tribute to the outstanding services that have been rendered by Mr. Cooper to the Canadian transportation industry since he first began his 40 years of railroad service with the Grand Trunk in 1912.

Mr. COOPER: Mr. Gordon, I thank you from the bottom of my heart for the kind expressions you have made on my account. As usual, you are more than generous in allocating credit and merit, and while it is perhaps over-stated sometimes, it is certainly nice to be on the receiving end once in a while. I too

would like to thank the committee. Over the years they have always been so considerate to the officers, including myself. I have always enjoyed coming up here. It is a bit of a test in a way. We are under pressure. We feel that there are so many hundreds of questions that you may ask and rather to our disappointment you always seem not to ask the questions which we would like to answer. I would like to say one thing too, that I do not remember the time in the affairs of the committee, where the accounts of the Canadian National are subjected to very close scrutiny, that there was ever an occasion found where the accounts had been mis-stated either intentionally or accidentally. I would like to add that the committee can place the most complete confidence in the integrity of the accounts of the Canadian National Railway.

The committee adjourned.

MILES OF 56# RAIL

ATLANTIC REGION

<i>Division</i>	<i>Subdivision</i>	<i>Between Mileages</i>	<i>Miles 56# Rail</i>
New Glasgow	Inverness	54.14- 58.30	4.05
Halifax	Sunnybrae	6.85- 11.90	3.55
	Lunenburg	3.18- 6.96	2.66
	Middleton	2.99- 43.84	
		49.83- 66.87	57.09
Moncton	Caledonia	0.80- 21.92	21.12
	Buctouche	5.90- 6.17	
		20.36- 22.40	
		27.06- 29.95	2.49
	Albert	28.36- 44.56	14.48
Campbellton	Richibucto	10.75- 26.49	15.54
Edmundston	Temiscouata	0.02- 0.38	
	Temiscouata	0.38- 78.42	
		80.57- 81.81	79.64
Island	Connors	0.02- 18.92	18.90
	Elmira	0.00- 9.85	9.61
	Montague	6.00- 6.34	0.34
	Murray Harbour	1.49- 47.66	44.11
	Vernon	0.00- 4.43	4.11
TOTAL			277.69

MILES OF 56# RAIL

CENTRAL REGION

<i>Division</i>	<i>Subdivision</i>	<i>Between Mileages</i>	<i>Miles 56# Rail</i>
Levis	Deschaillons	0.77- 13.12	12.35
Laurentian	Lac St. Joseph Branch	0.21- 0.62	0.41
	Montmorency	0.00- 0.09	0.09
St. Lawrence	St. Jude	0.49- 28.89	20.40
	Hemmingford	2.16- 19.50	15.57
	Beauharnois	5.57- 5.90	0.33
Belleville	Haliburton	55.50- 55.52	0.02
	Westport	0.94- 6.66	
		9.12- 39.98	29.19
	Picton	0.00- 7.00	6.33
	Maynooth	103.30-107.80	
		109.09-117.57	12.98
	Coe Hill	0.00- 7.02	7.02
	Marmora Branch	0.00- 2.75	2.75
	Bessemer Branch	0.00- 7.34	7.34
	Irondale	0.00- 5.15	
		9.37- 41.90	30.52
London	Simcoe	0.50- 0.81	0.31
Stratford	Exeter	31.60- 45.05	12.89
	Kincardine	23.15- 28.25	
		30.48- 33.96	
		41.28- 41.49	7.04
Allandale	Alliston	0.35- 13.37	
		17.17- 27.87	
		33.17- 37.71	26.50
TOTAL			192.04

MAY 12 1952

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SPECIAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

MONDAY, MAY 5, 1952

TRANS-CANADA AIR LINES—ANNUAL REPORT (1951)
AUDITORS' REPORT TO PARLIAMENT

SECOND AND THIRD REPORTS TO THE HOUSE

WITNESS:

Mr. G. R. McGregor, President, Trans-Canada Air Lines.

REPORTS TO THE HOUSE

MONDAY, May 5, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1953, referred to it on April 24, 1952, and recommends their approval, namely:

Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit

Vote 486—Canadian National (West Indies) Steamships, Limited—Deficit

Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

TUESDAY, May 6, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present its

THIRD REPORT

Pursuant to the Orders of Reference of the House of April 24, 1952, this Committee had before it for consideration the following:

1. The Annual Reports for 1951 of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Auditors' Report to Parliament in respect of the Canadian National Railways System, and the Canadian National (West Indies) Steamships, Limited.

2. The Annual Report of the Trans-Canada Air Lines for the calendar year 1951, and the Auditors' Report to Parliament for the calendar year 1951, in respect of Trans-Canada Air Lines.

3. The Annual Report of the Canadian National Railways Securities Trust for 1951.

4. The Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines for the calendar year 1952.

5. Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit.

6. Vote 486—Canadian National (West Indies) Steamships, Limited—Deficit.

7. Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

Your Committee held five meetings, during which the above-named matters were considered and evidence adduced thereon.

The Annual Report of the Canadian National Railways for 1951 discloses a net income of \$31,783,119.00. However, interest on the Funded Debt to the public amounted to \$23,467,703.00, and interest on Government loans amounted to \$23,347,412.00, bringing about a deficit of \$15,031,996.00. The said Annual Report was adopted.

The Annual Report of the Canadian National (West Indies) Steamships, Limited for 1951 discloses a net operating deficit of \$31,576.00 as compared with a net operating deficit of \$601,432.00 in 1950, and after payment of interest on bonds held by the public and on Government advances there was an overall deficit of \$466,992.00 as compared with \$1,028,767.00 in 1950. The balance in the Vessel Replacement Fund at the end of 1951 was \$4,685,337.00 as compared with \$4,313,638.00 at the year end in 1950. The Insurance Fund balance was \$2,046,654.00 against a balance of \$1,772,458.00 at the end of 1950. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1951 shows a surplus of \$3,843,726.00 for the North American Services as compared with a surplus of \$201,206.00 in 1950, and a surplus of \$47,231.00 for Trans-Canada Air Lines (Atlantic) Limited as compared with a deficit of \$1,526,412.00 for the year 1950. The said Annual Report was adopted.

The Auditors' Report to Parliament with respect to the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited and the Trans-Canada Air Lines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1951, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines for the calendar year 1952 were examined and adopted.

The items of the Estimates for the year ending March 31, 1952, being votes 485, 486 and 493 were considered and approved, and reported to the House by the Second Report of your Committee presented to the House on May 5, 1952.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, Mr. T. H. Cooper, Vice-President and Mr. T. V. Gracey, Comptroller, all of the Canadian National Railways; and Mr. G. R. McGregor, President of Trans-Canada Air Lines.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 30, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 4.00 o'clock p.m. this day in Camera. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Carter, Cavers, Dumas, Healy, Helme, James, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot.

The Chairman presented to the Committee a draft report to the House on the following:

C.N.R. Annual Report (1951) and Budget (1952);
C.N. Steamships, Limited (1951) and Budget (1952);
C.N.R. Securities Trust (1951);
Auditors' Report to Parliament;
Estimates—Items 485, 486 and 493.

It was agreed that consideration of the draft report be deferred until the Committee had completed its study of all matters referred.

The Committee adjourned at 4.10 o'clock p.m. to meet again at 11.00 o'clock a.m., Monday, May 5, 1952.

R. J. GRATRIX,
Clerk of the Committee.

MONDAY, May 5, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch.

In attendance: The Right Honourable C. D. Howe, Minister of Defence Production and Trade and Commerce. Messrs. G. R. McGregor, President, Trans-Canada Air Lines; W. S. Harvey, General Auditor; S. W. Sadler, Auditor; R. C. McInnis, Director, Public Relations and Mr. F. P. Turville of George A. Touche & Company, Accountants.

Mr. G. R. McGregor was called. He read the Annual Report of Trans-Canada Air Lines and was questioned thereon. The said Annual Report was adopted.

The Committee then considered and adopted the Auditors' Report to Parliament (1951) on Trans-Canada Air Lines.

Mr. F. P. Turville of George A. Touche & Co., was called, assisted Mr. McGregor and retired.

The Operating Budget and Capital Budget of the Trans-Canada Air Lines for the calendar year 1952 were considered and adopted.

The Chairman, on behalf of the Committee, congratulated Mr. McGregor on his entire staff on the extremely successful performance of Trans-Canada Air Lines in 1951.

At 12.50 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock p.m. in Camera. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Dumas, George, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott.

The Chairman submitted a draft report on all matters referred to the Committee. The said report was considered and adopted.

At 4.15 o'clock p.m. the Committee adjourned sine die.

R. J. GRATRIX,
Clerk of the Committee.

NOTE: The answer to a question asked by Mr. Fulton concerning the North Atlantic Passengers through the Montreal gateway for the year 1951 was filed with the Clerk of the Committee and is printed as Appendix "A".

EVIDENCE

HOUSE OF COMMONS,

May 5, 1952.

The CHAIRMAN: Gentlemen, we have a quorum. We are to take up this morning the report of Trans-Canada Air Lines, the audit report, and the budget. In addition to the minister, Mr. Howe, we have in attendance Mr. G. R. McGregor, the president; Mr. W. S. Harvey, general auditor; Mr. S. W. Sadler, auditor, and Mr. R. C. McInnis, director of public relations, Trans-Canada Air Lines.

I now call on Mr. McGregor.

Mr. MCGREGOR:

TRANS-CANADA AIR LINES

MONTREAL, February 29, 1952.

TO THE RIGHT HONOURABLE,
THE MINISTER OF TRADE AND COMMERCE, OTTAWA.

Sir:

The Board of Directors submit the consolidated Reports of the Trans-Canada Air Lines domestic and overseas services for the calendar year 1951.

Financially, this was by far the most successful year the company has yet had; but perhaps even more gratifying was the contribution it was able to make to the transportation needs of Canada.

Volume of business exceeded that of 1950 in all categories with system passenger transportation increasing by 20 per cent, aircargo and air express loads by 13 per cent and mail by 11 per cent. Although the traffic trend has been steadily upwards since the Company's inception, in no other year has the extent of the advance been so pronounced.

General expansion of the Canadian economy, immigration and the ever-widening public patronage of air transportation brought about a marked increase in gross revenues. On the other hand, the increase in expenses was on a very much smaller scale. The logical outcome of these two relatively satisfactory trends was a system surplus of \$3,890,957.

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

FINANCIAL REVIEW

There follows a tabulation of the 1951 operating results compared with those of 1950:

	1951	1950	Increase or (Decrease)
Operating Revenues	\$37,043,289	\$31,810,684	\$ 5,232,605
Operating Expenses	32,670,655	31,318,613	1,352,042
Operating Profit	\$ 4,372,634	\$ 492,071	3,880,563
Non-Operating Income—Net..	28,681	202,233	(230,914)
Profit	\$ 4,343,953	\$ 694,304	3,649,649
Interest on Capital Invested..	500,227	493,098	7,129
Surplus	\$ 3,843,726	\$ 201,206	3,642,520

These figures reflect a 16 per cent increase in operating revenues.

Passenger traffic accounted for the greater part of gross earnings and continued the rapid growth that has characterized recent years. There was also a substantial increase in revenue derived from express and cargo transportation.

Operating expenses were higher by 4 per cent, due principally to the cost of flying 2,061,577 additional aircraft miles and to the upward trend of wages and material costs. Operating payroll charges constituted the largest single factor, increasing by \$1,703,330.

At the same time, there was a very definite increase in the efficiency of the organization and this, combined with a higher business volume, produced a lowering of the unit cost. The industry's accepted unit of measurement of the work load of an airline is the "ton mile of air transportation made available for sale." The cost per ton mile in 1951 was reduced from 40.48 cents to 37.22 cents, an improvement of 8 per cent.

While it is hoped that this trend can be maintained, it cannot be overlooked that the steadily mounting price of labour and materials leaves no room for complacency with respect to this aspect of the future.

OPERATIONS AND TRAFFIC REVIEW

The growth of Canadian air transportation on the North American continent is reflected in the following statistics:

	1951	1950	Per Cent Increase
Total Aircraft Miles Flown	21,165,010	19,103,433	11
Passengers Carried	930,691	790,808	18
Passenger Miles Flown	450,840,623	379,605,810	19
Passenger Miles Available	605,438,361	548,850,808	10
Mail Ton Miles	3,969,371	3,644,752	9
Aircargo Ton Miles	2,391,297	2,319,712	3
Air Express Ton Miles	1,174,096	998,479	18
Revenue Ton Miles Flown	51,827,990	44,258,785	17
Ton Miles Available	87,779,863	77,369,710	13

EXPANSION OF SERVICE

The increase in service took place within the established route framework. North American summer schedules called for the greatest amount of flying in TCA's history. A fourth daily trans-continental flight began on April 1 and additional operations were provided on the majority of the other routes, including the trans-border services. By mid-summer, for example, fourteen daily scheduled flights were operating between Toronto and Montreal. Approximately 500 more airline seats were made available daily than at the height of the 1950 travel season and 10 per cent more scheduled flying took place.

PASSENGER TRAFFIC

Volume of passenger traffic on North American services reached unprecedented proportions in 1951. Indeed, there were periods when the airline found itself with insufficient capacity to meet demand, except in the case of cargo traffic for which there was ample accommodation. Traffic demand will, however, be adequately met in 1952 by additions both to the aircraft fleet and to trained flight personnel made in the fourth quarter of 1951.

It is gratifying to report that the Company's efforts to lessen the amount of autumn and winter decline in loads continued to meet with success. Because,

in the past, heavy seasonal fluctuation in passenger traffic has been the strongest single adverse influence on net earnings, the Company's merchandising policy in 1951 was aimed at a further familiarization of the public with the high degree of regularity of scheduled service being provided by the airline throughout all seasons of the year. This regularity, to which much credit must be given for the pronounced strengthening of winter loads, was again a feature of the year's operations. On North American services, the Company operated 19,710,013 of its 20,515,454 scheduled aircraft miles to achieve a flight performance figure of 96 per cent.

As a direct result, the Company found it necessary at the approach of winter to make a seasonal reduction of services amounting to only 4 per cent, as compared with 20 per cent in 1950.

Another salutary influence upon passenger traffic volume was the continued stability of the cost of air transportation to the public. In the face of generally rising prices for other services and commodities, the price of air travel in Canada remained unchanged in 1951.

MAIL TRAFFIC

Under a revised agreement with the Post Office Department, effective January 1, 1951, there was a marked increase in the volume of first-class mail carried. The Company's domestic mail traffic rose by 9 per cent and mail revenues also increased, but not proportionately to the additional amount of mail transportation provided. In fact, there was a further decrease in the unit mail payment. In 1951 TCA received \$1.45 per mail ton mile as compared with \$1.48 in 1950 and \$2.98 in 1947.

It is interesting to note the steady reduction over the years in the percentage of mail revenue of total revenue. The chart on page 8 shows that while mail represented 48 per cent of the system revenues in 1942, it now accounts for only 15 per cent.

COMMODITY TRAFFIC

The airline continued its active development of commodity traffic and domestic air express and aircargo loads increased appreciably. There were no tariff increases and, indeed, the introduction of a number of new commodity rates reduced shipping costs for specific types of traffic. This fact, coupled with increased surface transport rates within Canada, provided a decided stimulus to shipment by air. The growth of commodity traffic on Canada-U.S. trans-border routes was particularly marked.

AIRPORT AND AIRWAY FACILITIES

The airline and the Department of Transport worked co-operatively for the development of Canada's airports and airways. Extensions and improvements to runways were undertaken by the Department at Vancouver, Regina, Saskatoon, Ottawa and North Bay. A new airport was built near Saint John, N.B., enabling the airline at the end of the year to improve its service to that city. TCA was, however, increasingly hampered in the expeditious movement of passengers, baggage and cargo by the serious and growing inadequacy of traffic-handling facilities at the majority of Canadian airports.

In July, operations were transferred from Seattle's Boeing Airport to the newer Seattle-Tacoma Airport, due to increasing use of the former field by the United States military services.

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED FINANCIAL REVIEW

This section deals with the Atlantic section separately.

The following statistics for 1951 include the North Atlantic, Bermuda, and Caribbean services.

	1951	1950	INCREASE or (DECREASE)
Operating Revenues	\$10,967,012	\$8,344,815	\$2,622,197
Operating Expenses	10,665,465	9,586,388	1,079,077
Operating Profit or Loss	\$ 301,547	\$1,241,573	1,543,120
Non-Operating Income—Net	4,543	27,937	23,394
Profit or Loss	\$ 297,004	\$1,269,510	1,566,514
Interest on Capital Invested	249,773	256,902	(7,129)
Surplus or Deficit	\$ 47,231	\$1,526,412	1,573,643

The Atlantic services' surplus, while small, represented an improvement of \$1,573,643 in net income from 1950.

This encouraging result was the joint product of a considerable volume of North Atlantic immigrant travel, a decided upswing in traffic between Canada, Bermuda and the West Indies, and an effective program of cost control.

The 31% increase in overseas operating revenues was one of the features of the financial year, particularly when combined with the relatively small rise of 11% in operating expenses.

At the same time, the Atlantic services shared the general impact of increasing labour and material costs, and continuation of this trend cannot help but be apparent in future results. Operating payroll charges were \$701,413 higher than in 1950.

Competition was again keen on the North Atlantic route, with T.C.A.'s greatest strength lying in a record of reliable flight performance matched by no other airline. Of the 644 flights scheduled, 100% were completed.

OPERATIONS AND TRAFFIC REVIEW

The extent of the airline's increased overseas business is illustrated by the following statistics:

	1951	1950	PER CENT INCREASE
Total Aircraft Miles Flown	3,925,058	3,410,484	15
Passengers Carried	42,646	32,701	30
Passenger Miles Flown	94,319,673	74,472,299	27
Passenger Miles Available	139,841,217	115,999,064	21
Mail Ton Miles	498,722	394,339	26
Aircargo Ton Miles	1,846,583	1,488,805	24
Revenue Ton Miles Flown	13,345,858	10,575,483	26
Ton Miles Available	20,925,934	17,225,760	21

EXPANSION OF SERVICE

The only route extension of the year took place on April 1 when service was inaugurated to Paris. This called for a minor lengthening of the existing North Atlantic route, but was significant as the first air link between Canada and continental Europe to be provided by a scheduled Canadian carrier. Initially, one service per week was operated, this frequency later being doubled. A new and well-located office was opened in Paris. Traffic has proven very satisfactory with the service obviously having a special appeal to French-speaking Canadians.

North Atlantic flight frequency rose to a daily round-trip by mid-summer and so heavy were continuing loads that this schedule was maintained throughout the balance of the year.

There was a small fluctuation in Bermuda and Carribean schedules to conform with the busy winter holiday months and the relatively light summer season.

PASSENGER TRAFFIC

With record passenger traffic moving on both the North Atlantic and southern routes, the overseas services more than kept pace with the domestic operations in growth of business. In 1951, 22% more persons were transported on North Atlantic flights than in 1950, while Bermuda and Caribbean passenger traffic increased by 41%.

During the year 7,611 immigrants were carried to Canada from the United Kingdom and Europe under an agreement with the Canadian Government. The immigrant movement was, of course, confined to westbound trans-Atlantic flights and therefore tended to produce a lack of directional load balance. This, however, did not seriously affect the economics of the overseas operations.

Some minor adjustments were made to the price of overseas air travel. Dollar fares between Canada and all points beyond its boundaries, with the exception of the United States, were increased on July 1 to reflect changes in the rate of exchange. On October 1, the North Atlantic airlines jointly announced a \$20 increase in the one-way fare, as a result of increased cost of operations.

Encouragement was given North Atlantic business travel by TCA's organization in London of an Industrial Advisory Service for the purpose of providing Canadian information on request to potential air passengers in the United Kingdom and Europe.

MAIL TRAFFIC

There was a substantial rise in the volume of mail carried on the overseas services, the great majority of this being eastbound on the North Atlantic route where mail load was up 25%. Mail entrusted to TCA on its southern services continued to be of meagre proportions.

COMMODITY TRAFFIC

In 1951 the Company carried more aircargo through the North Atlantic gateway point of Montreal than all its competitors combined. Westbound loads were close to aircraft capacity throughout the year, and aggregate traffic over this route increased by 24% from 1950.

The volume of aircargo carried by the Bermuda and Caribbean flights also showed a gratifying improvement of 24% and, with trade restrictions between Canada and these southern areas being relaxed, future prospects appear bright.

Domestic and international services, interlocking with the world air network, continued to offer a means of rapid and efficient shipment both at home and abroad.

AIRPORT AND AIRWAY FACILITIES

The hurricane that struck Jamaica in August severely damaged Kingston Airport. Fortunately, however, operations were not seriously affected.

The North Atlantic aeronautical radio communications stations which had been operated on behalf of all North Atlantic operators were returned to the administration of the Department of Transport.

Arrangements were made for the airline's Bermuda and Caribbean communications to be handled by the Canadian Overseas Telecommunications Corporation. The Company's circuits to those areas were discontinued to avoid unnecessary duplication of facilities.

ROUTES

At December 31, 1951, Trans-Canada Air Lines was providing service for passenger, mail and commodity traffic over 8,641 miles of North American routes and 8,688 miles of overseas routes. This was an aggregate increase of 490 miles or 3 per cent over 1950. Over this system, encompassing 45 communities, were scheduled a daily average of 65,320 aircraft miles and 2,039,157 available passenger miles. The route map on pages 12 and 13 illustrates the comprehensive nature of the Company's present services.

PERSONNEL

On December 31, total staff numbered 5,512, as compared with 4,904 a year before, the increase being due to greater operational and traffic-handling requirements and to a shortening of the work week from 44 to 40 hours. This enlargement of the Company's working force reflected in no way on the performance of staff, without whose concentrated efforts the year's record production would not have been possible. Indeed, the 12 per cent employee increase, when compared with the 15 per cent growth of available ton miles and the 20 per cent increase in passenger traffic, indicates a further advance in personnel efficiency.

A general increase in employee remuneration became effective on October 1.

In September, Mr. W. G. Wood was appointed Vice-President, Traffic, succeeding Mr. A. C. McKim, resigned.

PROPERTY AND EQUIPMENT

The enlarged scale of 1951 operations was achieved with the existing fleet of 20 North Stars and 27 DC-3 aircraft. By mid-summer, the North Stars were performing efficiently at a utilization rate in excess of 9 $\frac{3}{4}$ hours a day on domestic services, a figure which has not been exceeded by any other carrier with so diversified a route pattern. The DC-3's also operated in an entirely satisfactory manner on the many inter-city routes where they were employed.

It became apparent, however, that further transport demands upon the airline could only be met by an enlargement of the fleet capacity. Accordingly, the Company purchased three more North Stars to be put into service early in 1952. These will enable the airline to make 20 per cent more seat miles available to the travelling public on transcontinental and inter-city services.

At the same time, orders were placed for five Lockheed Super Constellations to be delivered in 1953. This decision was made after a long and thorough engineering investigation of the types of aircraft then on the market. The Super Constellations were selected because they incorporate both proven performance and a major advance in commercial power plant design. It is planned to use them on the overseas services. The new aircraft will be powered with Wright 3350 "Compound" engines developing over 3,000 horsepower apiece.

Company engineers continued to make detailed technical economic examinations of all current developments of turbo-propeller and turbo-jet power plants and both current and planned types of aircraft in which the newer engine forms may be used.

In June, TCA began the maintenance of military training aircraft from the Manitoba and eastern Saskatchewan areas. Under an agreement with the Department of Defence Production, the Company undertook this work at its Winnipeg Overhaul Base for the purpose of relieving trained Air Force ground staffs for operational duties. By year end, over 215 aircraft had been reconditioned.

Traffic office additions and renovations were made where required, among them a new off-line office at Quebec City. Particular stress was placed on the improvement and expansion of both telephone answering service and reservation facilities.

Fuul responsibility was assumed by the airline for its Purchasing function, this being joined with Stores in a new Department. Mr. H. C. Cotterell was appointed General Manager, Purchases and Stores.

BALANCE SHEET

It is felt that the picture presented by the Company's 1951 balance sheet merits interpretation in some detail.

The average original book value of each of TCA's 27 DC-3 aircraft was \$156,000. Therefore the capital available for the purchase of replacement aircraft obtained from the full depreciation of each DC-3 will be approximately that amount. On the other hand, aircraft in current production which could reasonably be regarded as successors to the DC-3 are for sale in a price range of from \$600,000 to \$750,000.

Similarly, capital derived from the depreciation of each of the Company's North Star aircraft will approximate the original book value of \$675,000, whereas prices quoted for four-engined aircraft in current production which could be considered as eligible replacements range in price from \$1,400,000 to \$1,800,000. It will be obvious from these figures that the aggregate of depreciation accruals on the present aircraft fleet will not provide sufficient capital with which to purchase replacement aircraft when the time comes.

The 1951 surplus has therefore been reserved as a first contribution to the very large amount of money which will be represented by the difference between the cost of replacement equipment and the amount of money realized from the complete depreciation of the present equipment. This has been done with the concurrence of the Canadian National Railways which holds all TCA issued stock.

It will also be noted that the balance sheet records an item of \$1,952,000 representing the amount paid to the manufacturer concurrent with the confirmation of the order for five Super Consellation aircraft. The balance of payment will be made upon delivery, expected to take place in 1953. This, together with the purchase of associated spares and ground equipment, constitutes a committed additional expenditure of approximately \$9,000,000. The Company is also committed to pay to Canadian Pacific Air Lines, Limited in 1952 the sum of \$1,000,000 representing the balance of the purchase price of three North Star aircraft and associated parts.

Since none of the CPA aircraft were in TCA service in 1951, the size of the Company's fleet is correctly reported as unchanged from 1950. However, the increase in the property and equipment account as shown in the 1951 balance sheet represents the payments made on CPA aircraft and parts delivered but not placed in service in 1951.

THE AIR TRANSPORT PROSPECT

There is every reason to view with confidence the future of Canadian Air transportation, speed of travel and shipment being essential to a healthy nationhood in a county of such dimensions. Speed is no longer a luxury and, when wedded to dependability and comfort, becomes extremely marketable. It is the policy of the Company to carefully plan its growth so as to adequately meet the country's future requirements.

With the additional four-engined aircraft in use, 1952 will see a very substantial increase in the amount of airline service made available to the public, while at the same time no effort will be spared to further improve the quality of that service. By 1953 there will be an even larger expansion of capacity.

Fredericton will in 1952 be added to the route pattern and North Star domestic service will be extended east of Montreal.

In May, 1952, the Company will introduce much lower fares on the North Atlantic and thereby bring overseas air transportation within the financial reach of a new and larger market.

System revenues are expected to continue their upward trend and the greatest possible economy will be practised consistent with maintenance of the airline's standards.

APPRECIATION

In closing this Report, it is the wish of the Board of Directors to pay tribute to the loyalty, skill and efficiency of the airline's personnel. To them belongs the credit, not only for a year of successful endeavour, but for the position and reputation enjoyed by Trans-Canada Air Lines in the air transport industry.

For the Directors:

G. R. MCGREGOR,
President.

REVENUE COMPARISONS

1951-1950

NORTH AMERICAN SERVICES			ATLANTIC SERVICES		
	Increase			Increase	
	\$	%		\$	%
Passenger	4,483,004	19	Passenger	2,218,374	37
Mail	341,000	6	Mail	306,721	26
Express and Cargo ..	215,727	15	Cargo	131,897	16
Incidental Ser- vices ...	207,906	47	Incidental Ser- vices	39,693	22
Other	15,032*	5*	Other	74,488*	53*
Total	<u>\$5,232,605</u>	<u>16%</u>	Total	<u>\$2,622,197</u>	<u>31%</u>

*Decrease

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1951

ASSETS

Current Assets:		Current Liabilities:	
Cash	\$ 2,585,994	Accounts payable	\$ 2,962,440
Working fund advances	11,852	General	1,343,970
Special deposits	11,452	Traffic balances to other carriers..	
Accounts receivable			
Government of Canada	\$ 2,336,883	Air travel plan deposits	\$ 4,306,410
Traffic balances from other carriers	1,032,900	Salaries and wages	839,375
Agents	568,871	Prepaid transportation	812,400
Other	1,157,921	Other current liabilities	1,324,702
			44,609
Materials and supplies	5,096,575		\$ 7,327,496
Other current assets	2,099,620		
	41,754		
	\$ 9,847,247		

Investments and Special Funds:

Deposits with Canadian National Railways	\$11,000,000
Insurance fund	4,571,976
Advance payment on purchase of aircraft	1,952,344
Joint associations	27,049
	17,551,369

Capital Assets:

Property and equipment	\$31,029,783
Less: Accrued depreciation	16,777,206
	14,252,577
	\$41,651,193

LIABILITIES

Reserves:	
Insurance	\$ 4,571,976
Overhaul	860,764
	5,432,740
Capital Stock:	
Common stock—fully paid	25,000,000
Profit and Loss:	
North American Services—surplus year 1951	\$ 3,843,726
Atlantic Services—surplus year 1951	47,231
	\$ 3,890,957
Surplus year 1951	
Reserved for replacement of capital assets	3,890,957
	\$41,651,193

L. C. COOPER, Comptroller.

CERTIFICATE

We have examined the books and records of the Trans-Canada Air Lines and its Subsidiary Company for the year ended the 31st December, 1951.

In our opinion, proper books of account have been kept by the Air Lines, and the Consolidated Balance Sheet at the 31st December, 1951 and the Income Accounts for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the Air Lines.

29th February, 1952.

OF AUDITORS

The above Consolidated Balance Sheet and the relative Income Accounts are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Lines' affairs at the 31st December, 1951 and of the income and expense for the year.

The transactions of the Air Lines that have come under our notice have, in our opinion, been within the powers of the Air Lines. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

NORTH AMERICAN SERVICES		ATLANTIC SERVICES	
Year 1951	Year 1950	Year 1951	Year 1950
OPERATING REVENUES:			
\$ 28,666,505	\$ 24,183,501	Passenger \$ 8,245,384	\$ 6,027,010
5,741,000	5,400,000	Mail 1,484,149	1,177,428
1,688,982	1,473,254	Express and Cargo 954,228	822,331
224,771	194,573	Excess Baggage 47,942	41,463
73,690	118,921	Charter and Other 17,389	98,356
648,341	440,435	Incidental Services—Net 217,920	178,227
<u>\$ 37,043,289</u>	<u>\$ 31,810,684</u>	<u>Total \$ 10,967,012</u>	<u>\$ 8,344,815</u>
OPERATING EXPENSES			
\$ 7,637,455	\$ 6,846,269	Flight Operations \$ 2,387,265	\$ 2,161,773
5,214,768	4,443,180	Ground Operations 1,634,876	1,503,933
8,389,675	9,764,127	Maintenance 2,855,455	2,794,930
2,604,774	2,751,109	Depreciation 1,135,786	1,023,828
2,106,237	1,620,624	Passenger Service 569,979	432,383
4,004,745	3,324,217	Sales and Reservation Service 1,229,531	907,765
870,326	929,195	Advertising and Publicity 267,206	253,743
1,842,675	1,639,892	General and Administrative 585,367	508,033
<u>\$ 32,670,655</u>	<u>\$ 31,318,613</u>	<u>Total \$ 10,665,456</u>	<u>\$ 9,586,388</u>
\$ 4,372,634	\$ 492,071	Operating Profit or Loss \$ 301,547	\$ 1,241,573
23,681	2 202,233	Non-Operating Income—Net 4,543	27,937
<u>\$ 4,343,953</u>	<u>\$ 694,304</u>	<u>\$ 297,004</u>	<u>\$ 1,269,510</u>
500,227	493,098	Interest on Capital Invested 249,773	256,902
<u>\$ 3,843,726</u>	<u>\$ 201,206</u>	<u>Surplus or Deficit \$ 47,231</u>	<u>\$ 1,526,412</u>

The CHAIRMAN: Thank you, Mr. McGregor.

Will the members of the committee now turn to page 5 of the report, the Financial Review. Are there any questions on operating revenues?

Mr. FULTON: What was the deficit in non-operating income caused by?

Mr. MCGREGOR: It was caused largely by fluctuations in international exchange on currency.

The CHAIRMAN: Are there any further questions on Financial Review?
Carried.

Mr. KNIGHT: Mr. Chairman, at this point I think there would be no harm in an expression of appreciation of the very successful report of Trans-Canada Air Lines for the past year; and while Mr. McGregor mentioned in his last paragraph a note of appreciation of the personnel of the air lines, he might very well include himself and the officers who are under him.

The CHAIRMAN: Thank you, Mr. Knight. I think that is very appropriate.

Mr. KNIGHT: They are to be commended for coming to this very successful conclusion. I would just like to say that.

Mr. MCGREGOR: Thank you very much.

The CHAIRMAN: Page 6, Expansion of Service. Are there any questions?

Mr. MACDONNELL: The table shows "Passenger miles flown, in 1951, 450,840,623; and Passenger miles available, 1951, 605,438,361." Does that mean that if the aircraft had been filled every time the figures would be equal?

Mr. MCGREGOR: Yes. Perhaps a better expression would have been "seat miles available."

Mr. FULTON: That differential is what? Is it average or lower than the average for air lines?

Mr. McGREGOR: No, I would say it is higher than North American air lines in general.

Mr. FULTON: I mean the difference between available and actual.

Mr. McGREGOR: Yes, the load factor you are referring to, yes. Our load factor was considerably higher than the average.

Mr. FULTON: You had a bigger percentage of available seat miles taken than comparable air lines?

Mr. McGREGOR: Yes.

Mr. FULTON: That's what I was wondering, whether it was that or the other.

Mr. MACDONNELL: On page 6, you say:

"Indeed, there were periods when the air line found itself with insufficient capacity to meet demand, except in the case of cargo traffic for which there was ample accommodation."

Does this situation cause you to change your plans in any way in regard to cargo traffic? Does that mean that you confine yourself mainly to the passenger traffic, the extension, I mean?

Mr. McGREGOR: What is meant by that reference is the fact that there is in each passenger aircraft a considerable amount of available cargo space, that is there automatically and it is still not filled.

The CHAIRMAN: You do have planes other than passenger planes which are carrying cargo?

Mr. McGREGOR: We have one aircraft equipped for the carriage of cargo exclusively.

Mr. McLURE: Was there any exchange of services in the maritime provinces with the Maritime Central Airways and the T.C.A. from Moncton, Fredericton and Halifax?

Mr. McGREGOR: Yes, there is interline connecting arrangements at all the points where the two companies join, and Moncton is a good example.

Mr. McLURE: Moncton is a point?

Mr. McGREGOR: Yes.

The CHAIRMAN: Any further questions on expansion of service? Passenger traffic.

Mr. KNIGHT: Mr. Chairman, on top of page 7, first column, there is a comment which says:

"...efforts to lessen the amount of autumn and winter decline in loads continue to meet with success."

The situation is smoothing itself out, it is? Then there is a comment on page 15 in regard to the immigrants carried to Canada from the United Kingdom.

The CHAIRMAN: I think we should not confuse the North Atlantic services with the Atlantic services, Mr. Knight. I think it would be better if we confined ourselves entirely, for the moment, to the North American services.

Any further questions on passenger traffic?

Mail traffic.

Mr. GILLIS: I would like to ask Mr. McGregor if he had any representations from the Board of Trade of Sydney with regard to improving the mail delivery in Sydney by plane. There is one delivery a day there, I understand, both by plane and by train, which means it gets in there when it is impossible to sort it and deliver it that day, and so it has to remain in the post office 24 hours. There is only one delivery a day in Sydney and that is a pretty bad mail service for that city.

Mr. MCGREGOR: I have not had any representations, but I think the condition you describe has been eliminated by the commencement of the North Star service through Sydney, which began on April 27 last.

Mr. GILLIS: Could be.

Mr. GEORGE: Who decides, if a flight leaving Halifax, say, or Moncton, is cancelled, whether the mail will wait till the weather clears or whether it will be sent by rail.

Mr. MCGREGOR: The Post Office Department. I think the general rule is that if the mail is at the airport it probably waits for the next flight.

Mr. GEORGE: It appears to be that way. There are occasions when the mail is held too long.

The CHAIRMAN: That is the Post Office responsibility.

Mr. FULTON: When we discussed this mail revenue before, you told us it was difficult to figure out what it actually cost you, and I think you said you were continuing your studies into that. I wonder if you are now able to say you receive from this \$1.45 per mail ton mile the actual cost to T.C.A.?

Mr. MCGREGOR: I would say so, yes, taking the system as a whole. It varies a great deal on different routes, which was one of the reasons we have always said it was very nearly impossible to say what the dollar cost was for mail carriage.

Mr. FULTON: But you feel now you can tell the committee that the return received at least covers whatever cost factor you have been able to attribute to mail?

Mr. MCGREGOR: Yes, I think that is a fair statement.

Mr. MACDONNELL: I had a small experience, which is very trivial, but perhaps I could get some idea as to how mail is routed. I had a letter mailed here one night, which should have gotten into Toronto next morning. It was put in the post office in time, with special delivery stamps on it, but it did not arrive in Toronto the next day at all. Apparently what happened was that it was decided to send that by air. The weather was bad and the plane did not leave. Of course that happens, understandably, but what I am interested in now is, if that letter had gone by train it would have gotten there the next day. Is there any rule for sending out mail? Is it always sent by air? It seems to me a case where a new tool was being used with such enthusiasm that it did not seem very sensible. Actually, that letter did not catch the night train and it came by the day train the next day.

Mr. MCGREGOR: I think it is unusual for mail to be sent between here and Toronto by air, particularly evening collection mail. Perhaps the stamps were interpreted as being air mail, in which case it might go by air regardless.

The CHAIRMAN: Commodity traffic.
Airport and airway facilities.

Mr. KNIGHT: I see my own city of Saskatoon is mentioned here, so I could perhaps use that, I was going to say, excuse, but I do not need one for raising a small matter. Due to the increase of traffic to that city, a good many people, I think, would find it very convenient if some small lunch facility of some sort was provided. I think it would be an excellent thing. You have such facilities at other places, but at that particular airport people come off trains and rush out to the airport to board a plane and find at the airport there are no facilities for refreshments. This has been brought to my attention a time or two by people, such as the Board of Trade and some private individuals. I thought this might be a good place to mention it. I do not know whether the business through there is sufficient to justify that sort of thing and I am not pleading for anything on any elaborate scale, but a place for a quick bite, I think, would be a useful improvement at that particular point. Have you any comment to make on that?

Mr. MCGREGOR: The facilities at airports are not administered or determined by the air line in the case of the airports administered by the Department of Transport. That department does its best to make its space available to concession companies for such facilities as you describe. As you know, the airport building situation at Saskatoon is rather critical and temporary. I imagine when civil operation is begun in permanent quarters that something like that will be provided.

Right Hon. Mr. HOWE: As a matter of fact, we are very much behind in airport facilities and airport buildings at Saskatoon. The reason is the difficulty of building under present conditions and, another thing, the rapid growth of the traffic has been such that it costs a great deal of money to bring the facilities in step. We hope that Saskatoon will be straightened out, but it will be some time before we can get a better airport building there which will make it attractive enough to increase the lunch facilities. I imagine if there were enough people at the airport, either travelling or sightseeing, we could get a local concessionaire.

Mr. KNIGHT: I quite agree with the minister on those two main points, that the facilities with regard to buildings are certainly bad, and it is a bad time to secure material, but will we have to wait for all these changes before we can get any improvement like that?

Right Hon. Mr. HOWE: If you could get some local person to accept a concession there and provide the facilities, I do not think there would be much trouble. The difficulty is unless you make it attractive enough to attract people who are not air line passengers, as we did at many airports, it is not very attractive to a concessionaire, because it is difficult for him to make a living out of it.

Mr. GILLIS: I would like to ask this question. Your domestic flights in the Atlantic region originate in Newfoundland?

The CHAIRMAN: We are just starting the Atlantic operations.

Mr. GILLIS: You are on airport and airway facilities.

The CHAIRMAN: I thought you were referring to flights.

Mr. GILLIS: What I had in mind was this, that domestic flight west originates in Newfoundland and there are many days when flying conditions in Newfoundland are such that the planes have to be grounded, with the result that there is no service from Sydney to Montreal. This happens so often that an additional flight should be put on originating in Sydney. There is also the same demand for an additional flight originating in Montreal to Sydney, two planes a day rather than one. During the time I was home when the House was out of session, I learned that there is plenty of business there for an additional flight, because unless you have made reservations well ahead it is pretty nearly impossible to get a seat on that plane, and, in addition, there are many people who will strike an emergency, for example, they want to get to Montreal or Toronto and have to get there quickly, and unless they have their reservation in they will maybe have to wait a week or so. If a good look was taken at that situation, I am sure that an additional flight from Sydney to Montreal, and an additional one back from Montreal to Sydney, would be put on, because there is plenty of traffic there for it.

Mr. MCGREGOR: In the first place, I should say that Sydney is not entirely blameless in the matter of having weather conditions that suspend operations.

Mr. GILLIS: Newfoundland, you mean?

Mr. MCGREGOR: No, Sydney I mean. I think that situation has been cleared up by the new North Star service. One of the troubles with the Sydney service in the past, arose from tying it in with the Newfoundland service, in that the range of the DC-3 aircraft has not permitted them to go into doubtful

weather areas, find the weather unsatisfactory, and have the fuel capacity to come back. That situation is improved by the North Star aircraft on that particular route. The North Star can go beyond Sydney, go into Newfoundland and either land or not, and come back and resume its regular schedule. Furthermore, it can take off at Torbay under conditions which would be impossible for the DC-3, and therefore provide a more regular Sydney service. So I think you will find that the North Star services through Sydney to Torbay will go a long way to correct that situation you mention.

The CHAIRMAN: Atlantic services. Financial review. Any questions?

Mr. MACDONNELL: What is the increase of revenue here as compared with the North Atlantic services?

Mr. MCGREGOR: This is greater.

Mr. MACDONNELL: Your percentage of vacancy is about the same?

Mr. FULTON: Your load factor has decreased slightly?

Mr. MCGREGOR: Yes.

Right Hon. Mr. HOWE: The difficulty is, as you know, we have to take care of a minimum summer service. We know there is little traffic, yet we have to run down to the Caribbean once a week.

Mr. FULTON: I appreciate that, but I thought your load factor had decreased slightly, yet your over-all operating picture shows considerable improvement, financially speaking. What caused the decrease in the load factor, are you very much concerned about it, and will it be adjusted?

Mr. MCGREGOR: The load factor is a function of the frequency. Normally it has been our practice to cut the trans-Atlantic frequency down to five flights a week in the winter, but that was not done in the winter of 1951, it was maintained on a daily flight basis. That has a tendency to decrease the load factor slightly, but costs do not go up in proportion. Only direct operating costs are saved when there is a reduction in frequency.

The CHAIRMAN: And your net result shows it was a wise move?

Mr. MCGREGOR: Yes, the decision was influenced, too, by the immigrant traffic.

Mr. FULTON: A lot of your eastbound flights would have been empty?

Mr. MCGREGOR: That is right, to a degree.

Mr. FULTON: I think you actually increased your flight frequency somewhat over the previous year; you must have had a fair number of comparatively empty flights, and yet your financial result has improved. I was wondering—

Mr. MCGREGOR: In increasing the frequency the costs do not go up proportionately.

Mr. FULTON: I see. That is the answer.

The CHAIRMAN: Any further questions on financial review?
Expansion of service.

Mr. CHURCHILL: I think we should not overlook that concluding paragraph at the bottom of page 9, speaking of the record of reliable flight performance matched by no other air line. I think that is most commendable and I think the confidence the people are showing in TCA is dependent upon that. Is the same true with regard to the North Atlantic services? Have you a comparable figure?

Mr. MCGREGOR: Yes, as a matter of fact that statement does refer to the Atlantic service.

Mr. CHURCHILL: I mean to the North American service.

Mr. MCGREGOR: Yes, the flight performance is covered in what I read before. I believe 96.1 per cent of all flights were completed.

Mr. MACDONNELL: Isn't that rather astounding? On page 9, every single flight was completed. You were never compelled to turn back.

Mr. MCGREGOR: That means that every flight was completed. It might have been postponed or turned back, but it was flown, it was never cancelled.

Mr. MUTCH: And they all got through eventually?

Mr. MACDONNELL: As distinct from the home service, where a certain number were cancelled?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: Of course that has to do with the length of the trip, has it not?

The CHAIRMAN: A great deal to do with the frequency of the service.

Mr. MCGREGOR: If there is another flight scheduled in two or three hours, a particular flight, which has been delayed may, occasionally be cancelled.

The CHAIRMAN: Page 10.

Mr. KNIGHT: Mr. Chairman, I thought we were on page 6 yet. I would like to ask a question on passenger traffic. We will come to it on page 15.

Any questions on expansion of service, page 10?

Passenger services, page 15.

Mr. KNIGHT: In the second paragraph, and might I refer once again to page 7—about the equalizing of these winter loads:

It is gratifying to report that the company's efforts to lessen the amount of autumn and winter decline in loads continue to meet with success.

Then, turning to page 15, the question about the immigrants, it would appear from page 15 that this business of transporting immigrants rather upsets the balance. Is it not true that your lighter loads are coming westward?

Mr. MCGREGOR: No.

Mr. KNIGHT: They are not?

Mr. MCGREGOR: On the Atlantic?

Mr. KNIGHT: Yes?

Mr. MCGREGOR: No, but the unbalance referred to is not a seasonal unbalance, it is a directional unbalance. The eastbound loads were lighter, and if it were not for the heavy westbound loads the flights would not be justified at that high frequency.

Mr. FULTON: Referring to the opening of an industrial advisory service in London, I am wondering whether you are not doing there some of the work that would be done by the Canadian National Railways' office in London, and also, I think, by our Canadian immigration service. Have you a separate office to perform that service?

Mr. MCGREGOR: We have not a separate office, it is a bureau within our own offices and it is to assist people who come in for the purpose of buying air transportation and who ask us a number of questions. We found it was uneconomical and not satisfactory to have ordinary air line personnel who were engaged in the selling of tickets trying to provide that kind of information or to attempt to answer all the questions that a probable first visitor to Canada would ask, so we have a separate desk at which that type of information is available.

Mr. FULTON: Is that information given by separate people in your employ, or people who are put there by the immigration service?

Mr. MCGREGOR: No, it is given by separate people in our employ.

Mr. FULTON: It seems to me on the face of it, and I would be glad of your comment on the question, that it would be more logical to suggest that the one office in London do that service for all three, the Canadian National Railways, the immigration service and yourself, because, as I understand the location, the offices are not very far apart, and so it would not involve any great hardship to suggest to somebody that he go down the street to Canada House and he would get this complete information.

Mr. MCGREGOR: I think the reference in the report sounds more imposing than it actually is. It is simply a method of taking the load off the counter personnel that normally develops as people make inquiries with their purchase of tickets. People coming into the ticket office begin to ask questions and they hold up the work of the people who should be selling tickets, and it is just a matter of referring them across the office to a desk, which is manned by only one individual at a time to supply all this information and replies to questions as to where they can go, what they can sell, and so on. We do not attempt to encroach on the normal trade development work, and if the information requested, is of that type passengers are referred to the usual sources.

Mr. FULTON: I think perhaps I gave it an emphasis in reading the report which you did not intend.

Mr. GILLIS: I would like to ask you at this point if you have anything in your budget or in the plans for the improvement or building of a new airport at Halifax. There has been considerable talk about it for some time and I was wondering if you had anything in mind.

Right Hon. Mr. HOWE: That item would be in the Department of Transport estimates—T.C.A. does not build airports.

Mr. GILLIS: I thought they might mention the fact that they were improving the facilities.

Right Hon. Mr. HOWE: I dare say T.C.A. would be very pleased if the facilities were improved.

Mr. GILLIS: You cannot give us anything on it?

Mr. MCGREGOR: We have nothing to do with it. There have been reports in the press that it is being considered.

The CHAIRMAN: Are there any further questions on passenger traffic?

Mr. KNIGHT: In regard to service to passengers on these routes, there was a discussion in the House the other day regarding meals and refreshments—a discussion which is perhaps not satisfactory because it was incomplete. I want to say before I start that I have no prejudices in this particular matter but I think in view of the disturbing rumours of one sort and another in certain sections of the public, perhaps this is the place to get the facts regarding the particular matter so that people can know upon what to base their prejudices—if there is anything involved.

I think Mr. Howe made a statement in the House in which he said that as of May 1 the system of free meals and liquid refreshments to accompany them is being discontinued. Is that correct?

Right Hon. Mr. HOWE: On the north Atlantic run.

Mr. MCGREGOR: I would be delighted to have an opportunity to speak on that point because Mr. Howe made the statement absolutely correctly. He specified the North Atlantic but he was widely quoted in the press as saying there were to be no more free meals on T.C.A. That is not the case. The only route that is affected is the north Atlantic.

By Mr. Knight:

Q. That is exactly why I want to bring the matter out. I take it meals and such will be served on the north Atlantic route provided they are asked and paid for?—A. That is quite right.

Q. Then what is the situation regarding the Bermuda and Caribbean routes on the same matter?—A. It will remain exactly the same as in the past—free meals.

Q. When you say free you mean that passengers pay for them in the price of the ticket rather than specially ordering and paying for them?

Mr. GILLIS: You never get anything free. It is worked in somewhere.

Mr. KNIGHT: I will pursue the liquor question a little further. In the case of liquor being served on either routes—I take it that it is served in glasses and that there is no mention of the manufacturer's name or anything of that sort?

Mr. MCGREGOR: May I answer that?

The CHAIRMAN: Yes.

Mr. MCGREGOR: Apparently there is a suspicion on the part of an organization that T.C.A. was in some manner acting as an advertising agent for a brand. That is not the truth.

We did serve, in the case of the overseas routes, liquor from regular bottles and the accounting associated with that was quite fantastic. We approached several distilling companies and asked if they could give us individual bottles so the checking would be merely a bottle count and not a calculation of the amounts used out of large bottles. One organization and only one offered to do that for us. Incidentally we pay a little more for the liquor in the individual bottles than in the regular 26 ounce bottles.

Right Hon. Mr. HOWE: Incidentally the amount of drink contained in a bottle would not be considered to be a drink in Saskatoon.

Mr. KNIGHT: May I say I have seen larger drinks served in Ottawa than I have seen in Regina.

By Mr. Knight:

Q. Just for the record, and I think these things should be clear on the record so that people will know what they are talking about, there is no indication on any drink served in any plane of the name of the manufacturer?—A. Yes, the manufacturer's name is on the bottle and it says "bottled especially for T.C.A."

Q. Does the passenger see the bottle?—A. Not normally and I think in the case in question the passenger must have asked for a souvenir bottle.

Q. Well then, perhaps this may be ridiculous, but are there any sample bottles distributed among the passengers?—A. Not as such, no.

Q. The air line is not being used in any way for liquor promotion?—A. That is absolutely correct.

Q. Well, that is very satisfactory to me.

The CHAIRMAN: Mail traffic.

By Mr. Macdonnell:

Q. These 7,600 immigrants brought out by air, are they brought out that way because of the inadequacy of ocean transport, because they are in a hurry, or because you made the arrangements to get them?—A. It is a combination of the first two but it is over now; it has stopped.

Q. Do you mean temporarily?—A. No, permanently, as far as I know.

Right Hon. Mr. HOWE: The reason is that boat traffic is greater now. There is more boat traffic and there has not been the need to make special arrangements for bringing immigrants by plane. A year ago there was. We could not get enough space on the boat.

Mr. MACDONNELL: You mean that the shipping available is greater?

Right Hon. Mr. HOWE: Very much.

By Mr. Knight:

Q. Might I add to my series of questions so there will be no misunderstanding. Does any manufacturer supply to the air line, or has it ever supplied to the air line, liquor for which the air line has not paid?—A. Not to T.C.A.

Q. It is T.C.A. we are talking about.

Mr. MACDONNELL: What about this reference to dollar fares. You say: "Some minor adjustments were made to the price of overseas air travel. Dollar fares . . . were increased on July 1 to reflect changes in the rate of exchange."

Mr. MCGREGOR: Oddly enough we are speaking about the second and third quarters of 1951 and the rate of exchange at that time went to 7 per cent—therefore international fares in Canadian dollars increased since all international fares are based on the United States dollar. The position has since reversed itself.

The CHAIRMAN: Mail traffic? Commodity traffic?

By Mr. Mutch:

Q. On commodity traffic, is the question being considered of putting on freight flights between Montreal and Vancouver—non-passenger flights carrying freight only or air freight?—A. Mr. Mutch, that will be done if the condition that the report refers to, ceases to apply. If what I may call "ancillary cargo capacity" provided by passenger aircraft flights is overtaxed. That has not occurred yet, but should it, cargo aircraft will go into service, quickly.

Q. Only if it does?—A. There would be no point in flying a separate aircraft to take care of freight if there was still space available for it in the cargo compartments of passenger planes which were flying the route for passenger traffic reasons.

Q. Are you not getting more air cargo than you can handle?—A. Nothing like it.

Q. Well, the last time I flew west I was surrounded by eight seats containing cut flowers?—A. That heavy flower traffic is of very short seasonal situation.

Q. None of the flowers were on me and I know that you are getting more passenger traffic at certain times than you can carry, but I was concerned to know whether you were getting more cargo traffic.

By Mr. Macdonnell:

Q. Mr. McGregor, you say "In 1951 the company carried more air cargo through the north Atlantic gateway point of Montreal than all its competitors combined." Does that mean it was all trans-ocean traffic?—A. Yes.

Q. Could we just have figures to make that specific—who are the competitors?—A. B.O.A.C., K.L.M. and Air-France.

Q. When you say they are competitors—A. B.O.A.C. operates to London, Air-France to Paris, and K.L.M. to the Netherlands. They are all competitors.

Q. What about facilities? I suppose their facilities are more or less the same?—A. Yes.

Mr. KNIGHT: Do you know if that situation is true on the mail? In the special paragraph up above it says that the load given to T.C.A. is still meagre. Does that mean that very few people write to that particular part of the world, or is T.C.A. not getting its share of the business?

Mr. MCGREGOR: "Meagre" refers to the Caribbean and it is fair to say we are not getting our share of the business. There are several technical factors to account for that, coupled with the fact that the colonial governments in the Caribbean have not seen fit to give us any mail.

By Mr. Fulton:

Q. What is the comparable situation with respect to passengers? Have you any figures to show how we compare with the other competing air lines?—A. We have figures and can get them. Due to our frequency I would say it is very probable that the same statement as for commodity traffic is true.

Q. Because we operate the most frequent service?—A. Yes.

Q. As a matter of interest you might file that information with the committee?—A. I will be glad to do so.

(See Appendix "A".)

Q. The other question I had was with respect to the commodity shipment of flowers and you will remember there was some controversy as to whether you should continue shipping those by air. As you say, it is a very perishable and highly seasonable commodity. Did your experience this year work out satisfactorily with the growers concerned and have you decided to continue it—so that it will go on from year to year?—A. It was reasonably satisfactory from the air line point of view. The growers asked for several extra sections for the specific purpose of shipping cut flowers. Only about two-thirds of the accommodation requested was used. Easter this year coincided with the coming into bloom of a large amount of western flowers, but apparently the market demand was not quite as big as they had thought it would be. That was apparently the limiting factor; but certainly the air space was available in greater quantity than was actually used.

Q. Their thought was that they would have to ask for air space in excess of normal. Would you have been able to take care of the actual amount shipped without providing extra space?—A. Not without extra sections.

Q. I appreciate that you cannot make any firm commitment of this sort but on the basis of other factors being equal is it reasonable to assume that you will provide some extra space next year?—A. Yes.

Mr. MACDONNELL: Referring to what you say about your air cargo being greater than competitors, do I gather that is attributable mainly because you have more flights, or is there some other reason? Is it special cargo that T.C.A. can have designated to it by reason of the government?

Mr. MCGREGOR: No, there are no special concessions of that nature. I think it is a combination of both frequency and the fact that T.C.A. probably has stimulated ocean transport more than other companies have so far.

The CHAIRMAN: Airport and airway facilities.

By Mr. Fulton:

Q. There is a paragraph about the north Atlantic aeronautical radio stations. What significance is there to that section of the report?—A. That signifies that the air line and other organizations were operating a communication channel independently, now they have been consolidated under one agency and we lease the facilities or rather we pay a message rate on those facilities now. It comes under one jurisdiction now and is somewhat tidier.

Q. Do you think it will represent an over-all saving?—A. I think the cost to the air line is about the same or perhaps even higher at the present time. As traffic grows, presuming it will, the cost should go down.

Mr. MACDONNELL: Speaking of the paragraph Mr. Fulton inquired about you said "One agency" but I was not quite sure what you meant. You say here: "They were . . . retained through the administration of the Department of Transport." When you said "agency" did you mean the Department of Transport?

Mr. MCGREGOR: No, I meant the Canadian Overseas Telecommunications Corporation. There are two different things referred to in that paragraph.

Mr. GILLIS: Mr. McGregor, did you have any complaint from the personnel on making that switch? How did it affect their wages and conditions?

Mr. MCGREGOR: Wages I think were comparable. There were some questions asked about the relative desirability or otherwise of the pension arrangements as between T.C.A. and the department.

By Mr. Macdonnell:

Q. Going back to my question, I see the third paragraph answers completely the situation regarding Bermuda and the Caribbean but I am still not quite sure about the second paragraph.—A. The situation in the case of the Department of Transport was again that the air line was operating one or two stations—Gander, and Montreal—I am talking about trans-Atlantic of course—and one other; whereas, the Department of Transport was operating all other facilities and it was decided a year or more ago that the department should take on the whole of the Atlantic air to ground communications responsibility.

Q. There again do I understand that in a certain area the Department of Transport functions and in another area—the Caribbean and Bermuda—Canadian Overseas Telecommunications operates?

What is the difference in the relationship of the Department of Transport—A. We have none—

Right Hon. Mr. HOWE: A Crown company was established two years ago to take over the facilities of Marconi. The Marconi service was nationalized and Canadian Overseas Telecommunications was a Crown company established by parliament to take over that part of the Marconi service which falls within Canada and within Canadian responsibility.

Mr. MACDONNELL: Would it be correct to say it operates on behalf of the Department of Transport—or who does it report to?

Right Hon. Mr. HOWE: It reports to the government through the Minister of Transport. It is a Crown company; it is not a direct Department of Transport operation. It is a Crown company with its own board of directors.

Mr. MACDONNELL: What is the reason it operates in the area that it does?

Right Hon. Mr. HOWE: That was the area formerly operated in by Marconi.

Mr. MACDONNELL: But was there any natural division—any administrative convenience in that?

Right Hon. Mr. HOWE: No, I think it more or less happened that way. Certain new facilities had been established directly by the Department of Transport, certain others by Marconi. A particular company took over the Marconi service which extends around the world—the Commonwealth Communications Service.

Mr. MCGREGOR: I think the answer is that there are two different types of service. The Department of Transport operates radio facilities for the handling of air traffic, etc., with respect to the trans-Atlantic. On the other hand, the Canadian Telecommunications Corporation's services referred to, serve the Caribbean routes.

Right Hon. Mr. HOWE: Generally speaking the Crown company operates the cable and wireless service formerly operated by Marconi.

By Mr. Fulton:

Q. Who does that service that you referred to a moment ago for the north Atlantic—reporting from Gander to London that an aircraft has left and so on?—A. There is a circuit leased jointly by the trans-Atlantic operators. We pay that cost directly.

Q. Whose system is that?—A. I do not know the name of the operating company.

Q. You operate yourself or at the least the north Atlantic operators?—A. We do not operate it; we pay for the right to use that circuit.

Q. It is operated by the owners.

Mr. MACDONNELL: The whole of that service is divided into three bits?

Mr. MCGREGOR: There are two different types of service—air to ground and ground to ground, and also two different geographical areas involved.

Mr. MACDONNELL: There are three involved—the Department of Transport, this special agency, and Canadian Overseas Telecommunications.

By Mr. McLure:

Q. How many feeder lines have T.C.A. in Canada?—A. You mean—

Q. Those would be independent lines co-operating with T.C.A. across Canada. For instance, take Maritime Central Airways. That is a different line altogether. They co-operate with T.C.A. and become a feeder line for them. How many of those have you across Canada?—A. There are four or five comparatively large ones: Canadian Pacific Airlines, Maritime Central Airlines, Queen Charlotte Airlines, Central Northern Airlines—there are also a number of smaller ones that connect with us in the same way.

Right Hon. Mr. HOWE: You have a traffic arrangement with a great number of them?

Mr. MCGREGOR: Yes.

Right Hon. Mr. HOWE: Almost any line will sell a ticket for travel via T.C.A. and to almost any destination.

Mr. McLURE: Some of our passengers complain in Prince Edward Island that they cannot get reservations held long enough for them in Moncton, we will say. Maritime Central Airways will take them over that far and it used to be understood that T.C.A. would hold a couple of reservations until a short time before their flight from Moncton.

Mr. MCGREGOR: We hold reservations up until three hours before flight departure and they are only relinquished then if there is a waiting list of passengers desiring those seats.

By Mr. Dumas:

Q. Under the item "routes," I wonder if Mr. McGregor would tell us whether the route from Montreal through Ottawa, North Bay and Sudbury to Toronto has been abandoned?—A. No; a route Montreal, Ottawa, North Bay, Sudbury, Sault St. Marie has been applied for by T.C.A.

Q. Did T.C.A. apply for a route from Rouyn to Toronto?—A. No.

Mr. MACDONNELL: Under routes, may I ask this. "This was an aggregate increase of 490 miles or 3 per cent over 1950. Over this system, encompassing 45 communities . . ." what do you mean by "communities"?

Mr. MCGREGOR: Cities at which we stop.

The CHAIRMAN: Personnel? Property and Equipment?

Mr. FULTON: Mr. Chairman, I do not want to get into a technical discussion but you refer to this: "The new aircraft will be powered with Wright 3350 'compound' engines . . ." Briefly, what is that type of engine?

Mr. MCGREGOR: It is an interesting question, Mr. Fulton. The term "compound" refers to the fact that this is a piston type engine basically which, instead of being left at that does the following: The exhaust coming from the 18 cylinders, is conducted through three turbines, and the velocity of that gas is used to drive those turbines which in turn produce about 400 additional

horsepower, which is transferred through gears to crank-shaft of the piston engine. "Compound" refers to the fact that they are using two different sources of power in the one engine.

Right Hon. Mr. HOWE: In other words it is just a combination with another form of jet.

The CHAIRMAN: What speed do you get?

Mr. MCGREGOR: These aircraft have a cruising speed of about 325 miles an hour.

By Mr. Mutch:

Q. I want to ask you a question with regard to the North Stars—that is the ones travelling east and west. I think that last year you mentioned something about new mufflers that are going to eliminate noise?—A. Yes.

Q. How far has that advanced?—A. It has advanced quite satisfactorily. In fact one aircraft is now equipped and is operating between Montreal and New York—and has been for the past four weeks. Deliveries of the production models of the cross over exhaust manifolding and the associated cowling are scheduled to commence in June of this year and to be completed by November.

Q. In other words all your North Stars will be complete before the end of the year?—A. Yes.

Q. Is that your own development?—A. Yes, T.C.A.'s development.

Q. You told us a year ago that you were proceeding independently of the manufacturer, and this is a product of your own engineers?—A. Yes, that is correct; I really should say it is a product of Winnipeg.

Q. I was too modest to say that but I hoped that you would. However, you will not be surprised that I knew the answer.

By Mr. Fulton:

Q. Last year the committee asked you through its report, and I am reading from page 241 of last year's minutes of proceedings:

Your committee noted that progress has been made in research to reduce exhaust noise in North Stars, and hopes that responsibilities of Canadair in connection with the installation of any successful device will be further investigated.

I know that I and one or two other committee members expressed it as an offhand opinion at any event that the responsibility of Canadair under that agreement should be pressed very vigorously. I wonder if you can tell us what if any results came of that recommendation?—A. Yes, I can. In fact I think that the remark you have just quoted arose from a certain amount of ambiguity that existed in the Canadair-T.C.A. contract which was read at that time.

Q. Yes.—A. The matter was investigated very carefully by the legal department and the opinion was given the contract provided that if Canadair developed a cure for the exhaust noise in the North Star aircraft then T.C.A. and Canadair would share the expenses.

The interpretation was, and I think correctly, that there was no provision for Canadair to share any of the expenses if, as was the case, Canadair abandoned the development, and a form of muffler was developed by T.C.A.

Mr. FULTON: Was any investigation made by your legal department on the question of the responsibility of Canadair working hard to produce something? Because, if that was so provided for in the contract, then all Canadair would

have to say was "we have made some token investigation to produce something but we cannot produce anything, therefore the cost and the responsibility will rest on you." What were the terms of the contract in regard to the Canadair obligation to work in order to try to get something?

Mr. MCGREGOR: It was the responsibility of Canadair to do such to the exhaust of the North Star as would make the aircraft competitive. We could not say that the aircraft was not competitive because it was doing very well. Also the development efforts made by Canadair could not be described as token. They worked for well over a year on that problem and they developed a cross-over exhaust which produced a considerably quieter engine, but it did have a heating problem.

Mr. MUTCH: Perhaps they should open a plant in Winnipeg too.

Mr. FULTON: Was it your feeling, or did you take advice of counsel or from lawyers on the question of whether or not Canadair had discharged its obligation for research under the contract?

Mr. MCGREGOR: Not phrased in that way, Mr. Fulton. As a matter of fact, we and our legal people are very much en rapport with the work done by Canadair, and are satisfied that they put a very legitimate effort into the problem.

Mr. MCCULLOCH: Might I ask if any efforts have been made to provide arrangements for pipe smokers?

Mr. MCGREGOR: No, Mr. McCulloch, the policy of the greatest good for the greatest number, still seems to rule out pipe smoking.

Mr. FULTON: Why are all the Constellations being placed initially in the overseas service rather than in the domestic service?

Mr. MCGREGOR: I did not hear your question, Mr. Fulton.

Mr. FULTON: Why are all the Constellations being assigned exclusively to the overseas service initially rather than being placed in the domestic service?

Mr. MCGREGOR: It is very desirable that aircraft be segregated by routes; and the foreseeable need of the total system for additional aircraft corresponds to number of aircraft needed in the Atlantic fleet. Furthermore, these aircraft are of a very long range type and will fly the Atlantic non-stop. They are therefore best suited to that service.

The CHAIRMAN: Are there any further questions on "Property and Equipment"?

Mr. MACDONNELL: Am I correct in understanding that counsel advised you that you have got no claim against Canadair?

Mr. MCGREGOR: That is correct.

Mr. MACDONNELL: Without getting you involved in the details of engine manufacture, I understand you are proceeding with a sort of combined type, and that you are not going into pure jets?

Mr. MCGREGOR: At this time, yes.

Mr. MACDONNELL: How serious to you would be the problem, supposing jets become manifestly superior to others? Would you have a great problem in changing over?

Mr. MCGREGOR: With the super Constellations, there would not be a great problem, but it would be an expensive one. Technically it would not be difficult, but it would not be economically or reasonably feasible to make the change with respect to the North Star aircraft.

Mr. GEORGE: Have you any plans for jets?

Mr. MCGREGOR: No, no definite plans. We are keeping very much abreast of current developments; but our feeling is that we are desirous of seeing sufficient experience with either jets or turbo-prop aircraft to be able to make good estimates as to their operating costs. How expensive are they going to be to maintain? What will the jet fuel picture be in the years to come? Those are all points which we do not feel have yet been answered in sufficient detail to provide for definite planning for that type of aircraft at this juncture.

The CHAIRMAN: The "balance sheet," page 18.

Mr. MACDONNELL: I noted with interest what was said about replacements, and the figures which you have given us. But can anything be said on this point: you are setting aside a certain amount of money for replacements this year, in addition to depreciation?

Mr. MCGREGOR: That is correct. It is a difficult question to answer because there are two or three variable factors in it. If the price of replacement aircraft remains stationary—which it shows no tendency to do so far—it would take, roughly, three times as much investment in aircraft equipment to replace the aircraft which we now have.

Mr. MACDONNELL: I can agree with you there; I cannot ask you to predict the future.

Mr. MCGREGOR: On the basis that there is about \$15 million invested in aircraft equipment now, we would then need to obtain from earnings, something like \$30 million, if we are not to take on new capital.

Right Hon. Mr. HOWE: We sort of creep up on this thing. We are getting the five four-engined aircraft for the North Atlantic, and immediately depreciation will start to accrue on the basis of their cost; and by spreading out our purchases, it is not as bad as though you replaced the equipment all at once. It does not mean \$30 million additional, so to speak.

Mr. MACDONNELL: Have you had enough experience yet to say what the life of an aircraft is?

Mr. MCGREGOR: The life of an aircraft could be called infinity because an aircraft is not allowed to grow physically old. By life we mean the competitive life of the aircraft, and its acceptability to the travelling public. Their productive life will depend on how well the existing aircraft meet those requirements. We estimate the useful life of the North Star as being 7 years.

Mr. MACDONNELL: Did you say that the total cost of your aircraft was \$15 million?

Mr. MCGREGOR: Yes.

The CHAIRMAN: That is the amount after depreciation?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: I read an article the other day to the effect that you should make us all sit backwards, because it would make us safer. Are you going to do that?

Mr. MCGREGOR: That is a question which has been the cause of a great deal of controversy in air line operation.

Right Hon. Mr. HOWE: It has been a wide open question for 10 years.

The CHAIRMAN: Shall the report carry?

Carried.

Shall we now turn to the "Auditors' Report"?

GEORGE A. TOUCHE & CO.

CHARTERED ACCOUNTANTS

LEWIS BUILDING

465 St. John Street, Montreal 1

MONTREAL, TORONTO, WINNIPEG, REGINA, EDMONTON, CALGARY, CRANBROOK,

VANCOUVER, VICTORIA

REPRESENTED IN THE UNITED STATES OF AMERICA AND GREAT BRITAIN

6th March, 1952.

TRANS-CANADA AIR LINES

THE RIGHT HONOURABLE THE MINISTER OF TRADE AND COMMERCE,

OTTAWA, CANADA.

Sir,

We have audited the accounts of the Trans-Canada Air Lines and its Subsidiary Company for the year ended 31st December, 1951, under authority of the Trans-Canada Air Lines Act, 1937 as amended and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Income Accounts and certification thereof.

INCOME ACCOUNTS

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

(a) Flight equipment in service—

North Star M2—7 year estimated life from date of being put into service.

DC3—4 year estimated life from date of being put into service.

(b) Ground facilities—estimated life, the period depending upon the type of asset.

In view of the uncertainties of the market for second-hand aircraft four years hence, it has been deemed advisable to adjust the residual value of North Star M2 aircraft from the previous estimate of \$67,000 to \$30,000 per aircraft. This action is in line with the policy adopted by Airlines in the United States. The estimated life from the date of installation of permanent and temporary buildings has been reduced from thirty-three and a third years to twenty and ten years respectively.

Two used North Star M2 aircraft were purchased during the year and the net book value of these aircraft was brought into line with the depreciated value of similar aircraft already owned by the Airlines by charges to Flight Equipment Depreciation Accounts.

During the year the remaining five of the twenty-seven DC3 aircraft became fully depreciated with a residual value of \$5,000 each.

Interest on Capital Invested

Interest at the rate of 3 per cent was paid to the Canadian National Railway Company on its investment in the capital stock of the company.

Non-Operating Income—Net

Temporary cash investments consisting of Canadian National Railway 2 $\frac{7}{8}$ per cent guaranteed bonds and 3 per cent bonds and debentures guaranteed by the Provinces of Ontario and Quebec carried at cost in the Balance Sheet at 31st December 1950, were sold during the year and the resultant loss has been charged against Non-Operating Income. Credits to this account comprise interest earned on temporary cash investments, interest on deposits with the Canadian National Railways and discounts earned on purchases. In the case of the Atlantic Services the expense arose through the sale of foreign currencies.

CONSOLIDATED BALANCE SHEET

Assets and Liabilities

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken late in 1951. We have received a certificate from the responsible officers to the effect:—

- (a) That the quantities were determined by actual count, weight of measurement or by a conservative estimate where such actual basis was impracticable, and
- (b) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable second-hand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory by a charge to operating expenses of \$8,000.

During the year surplus funds of \$11,000,000 made available through accumulated depreciation accruals, were deposited with the Canadian National Railways. Interest at the rate of 3 per cent was paid to the Airlines on these deposits.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry current assets. The year-end market value of these securities was 11.08 per cent less than cost.

Advance payment on purchase of Aircraft represents an advance of 25 per cent on the purchase of five Lockheed Super Constellations due for delivery in late 1953.

Capital assets are carried on the basis of cost, less accrued depreciation.

Insurance Reserve

The Insurance Reserve amounts to \$4,572,000 of which \$3,010,000 is applicable to the North American Services and \$1,562,000 to the Atlantic

Services. The Reserve in respect of the North American Services reached the maximum considered necessary in 1949. The Reserve applicable to the Atlantic Services increased by \$514,000.

Profit and Loss

The profit for the year, amounting to \$3,891,000, has been reserved as a contribution towards increased cost of future purchases of capital assets.

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are converted generally as follows:

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the rate of \$2.95 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

GEORGE A. TOUCHE & CO.

Mr. KNIGHT: I would like to ask Mr. McGregor to enlarge upon the paragraph entitled "The Air Transport Prospect" on page 18 of the report, where he says:

In May, 1952, the company will introduce much lower fares on the North Atlantic and thereby bring overseas air transportation within the financial reach of a new and larger market.

Just what will that involve? It must involve a decreased service or a cheaper type of service?

Mr. MUTCH: Buy your own liquor!

Mr. MCGREGOR: Part of your question has been answered by Mr. Howe and part by Mr. Mutch. In the first place, the minimum free passenger baggage is cut from 66 to 44 pounds. In the second place, meals are not provided free; and in the third place, there will be no liquor of any kind on board the aircraft.

The CHAIRMAN: Are there any questions on the auditors' report, before we go into the estimates?

Mr. FULTON: My question might perhaps be more properly directed to the auditor than to Mr. McGregor, or they may both answer it jointly. Is there any way which anyone can see at the present moment of meeting this problem of the inadequacy of your depreciation?

The CHAIRMAN: I wonder if the auditor would mind coming around here to the head table. Now, Mr. Fulton, Mr. McGregor will have the help of the auditor.

Mr. FULTON: Is there any way which would be in accordance with proper bookkeeping and accounting practice which has yet been worked out to meet this problem of the inadequacy of depreciation reserves on account of the appreciation in price? Do you know if there is anything which can be done about that?

Right Hon. Mr. HOWE: We would be glad, if we could, but we are subject to income tax, and we are bound by the same depreciation laws which apply to all industry; it is a write-off of the value of the assets.

Mr. FULTON: It is something you just cannot do anything about, and nobody has yet thought of a way of doing anything about it?

Mr. MACDONNELL: They are doing it here to the extent they are recognizing the problem and setting aside \$3 million. I do not suppose we could find a company that does not recognize it by setting aside a part of its surplus.

The CHAIRMAN: Increasing its capital by surplus.

Right Hon. Mr. HOWE: There is no other way of doing it.

Mr. MACDONNELL: The income tax laws will not let you.

The CHAIRMAN: Are there any other questions on the auditor's report? If not, does the report carry?

Carried.

Now we shall turn to the budget.

TRANS-CANADA AIR LINES

Operating Budget—1952

	All Services	North American Services	Atlantic Services
Operating Revenues	\$53,750,000	\$42,565,000	\$11,185,000
Operating Expenses	52,430,000	40,250,000	12,180,000
Operating Profit or (Loss)	\$ 1,320,000	\$ 2,315,000	(\$ 995,000)
Miscellaneous Income	80,000	150,000	Dr. 70,000
Interest on CNR Investment—Net	400,000	140,000	260,000
Net Profit or (Loss) before Income Tax	\$ 1,000,000	\$ 2,325,000	(\$ 1,325,000)

TRANS-CANADA AIR LINES

Capital Budget—1952

	Revotes	New Items	Total
Airplanes	\$ 155,000	\$ 739,000	\$ 894,000
Propeller Equipment—Lockheed		60,000	60,000
Radio Equipment	82,000		82,000
Miscellaneous Flying Equipment	11,000		11,000
Spare Units and Assemblies	182,000	30,000	212,000
Ground Communications Equipment.	14,000	2,000	16,000
Hanger and Shop Equipment	104,000	83,000	187,000
Ramp Equipment	19,000	77,000	96,000
Motorized Vehicle Equipment	79,000	122,000	201,000
Waiting Room and Office Equipment.	74,000	83,000	157,000
Engineering Equipment	1,000	5,000	6,000
Food Service Equipment		1,000	1,000
Storage and Distribution Equipment.		7,000	7,000
Miscellaneous Equipment	1,000	14,000	15,000
Buildings and Improvements	88,000	1,350,000	1,438,000
Contingency Fund		300,000	300,000
	\$ 810,000	\$2,873,000	\$3,683,000

The CHAIRMAN: "Operating Revenues"? Are there any questions on "Operating Revenues"?

Mr. MACDONNELL: You have been paying income tax this year, too?

Mr. MCGREGOR: Yes, beginning January 1st 1952.

Right Hon. Mr. HOWE: We carry self insurance, and the income tax will not recognize as a cost self insurance unless you have an accident and use it up. Therefore we get taxed on the annual allocation to our self insurance fund.

Mr. MCGREGOR: The main risk is carried in the self insurance fund and the accruals to that fund are on the basis of premium charges, and are not chargeable as operating expenses.

Mr. FULTON: In what respect do you anticipate the main increase in your operating revenue on the North American service? Would that be air cargo?

Mr. MCGREGOR: No. It would be a contributing factor to the increase, but the passenger revenue increase will be the greater, as has been confirmed by the first 3 months of this year in which passenger revenues are in the order of 16 per cent higher than last year.

Mr. FULTON: It will be an increase in the actual use of the available seat miles, and you are not going to place more aircraft in service?

Mr. MCGREGOR: On the contrary; we have placed more aircraft in service.

Right Hon. Mr. HOWE: We bought three more North Stars.

Mr. MCGREGOR: The fifth transcontinental flight went into service 4 or 5 days ago. That is only one of many service additions.

Mr. KNIGHT: Do you think that your operating profit will be affected favourably, shall we say, by the new system when it be established, I mean the new tourist system as opposed to the standard?

Mr. MCGREGOR: On the Atlantic?

Mr. KNIGHT: Yes, on the Atlantic. What would be the financial picture there? You will get more passengers, of course.

Mr. MCGREGOR: We are not sure but inasmuch as the seating capacity of our aircraft is not going up this year on the Atlantic, we doubt if the net will be as good under the low fares; the reduction in fares is from \$395 to \$265 one way.

Mr. KNIGHT: There would be some long view development in making people air conscious, or air minded, in inducing them to travel by a cheaper route?

Mr. MCGREGOR: That is right. Eventually it will probably be the case with respect to T.C.A. as it is already true with some other companies, that high density seating will be used on our aircraft.

Mr. FULTON: Did you say the reduction would be from \$395 to \$265?

Mr. MCGREGOR: Yes.

Mr. FULTON: For one way?

Mr. MCGREGOR: Yes.

Mr. FULTON: That is a reduction of 30 per cent.

Mr. KNIGHT: If the improvement is due to the fact that no liquor is being consumed, then there must be a lot being consumed at present.

Mr. MCGREGOR: The most expensive thing about the liquor is to carry it, not to provide it.

Mr. KNIGHT: I am not too serious about that question.

Mr. MACDONNELL: In this year, 1951, the operating revenues on the North American service they were \$37,043,289, whereas the operating expenses forecast for 1952 will be \$40,250,000 on the North American; and on the Trans Atlantic the operating profit in 1951 was \$301,547, and there was a total of \$4 million and six. Am I correct, or have I missed something?

Mr. MCGREGOR: You are talking about the \$1,400,000 odd?

Mr. MACDONNELL: That is the operating profit.

Mr. MCGREGOR: That is right.

Mr. MACDONNELL: And what accounts for the tremendous drop?

Mr. MCGREGOR: A good deal of it is caused by the very substantial rise in expenses brought about by wages. The wage bill will increase in the order of 15 per cent, which represents about \$4 million.

Mr. MACDONNELL: And part of that has been in effect for a portion of this year you are reporting, or is it all new?

Mr. MCGREGOR: Some of wage increases became effective in October of last year, and some at the beginning of this year.

Mr. MACDONNELL: Does that mean you are deducting the full amount of that as added expenditures, or are you giving yourself credit for additional operating revenue?

Mr. MCGREGOR: Yes; a revenue increase from \$37 million to \$42 million.

Mr. MACDONNELL: Yes; but that is nothing like the probability.

Mr. MCGREGOR: That is the estimate.

Right Hon. Mr. HOWE: This is only a forecast. You have got to guess on the travel habits of people, on the weather, and on a lot of other things. But we hope the basis is conservative.

Mr. FULTON: Is this reduction of North Atlantic fares by agreement with other companies or just a move on your own?

Mr. MCGREGOR: No, very much not. This was a decision or an agreement reached in IATA, largely at the instigation of one of the large American carriers.

Mr. FULTON: And are they also making corresponding reductions?

Mr. MCGREGOR: Yes.

Mr. GILLIS: Is that not price fixing?

The CHAIRMAN: We will now turn to the capital budget.

Mr. McLURE: When will the T.C.A. service across the Atlantic begin taking reservations for the coronation in June, 1953?

Mr. MCGREGOR: In the first six hours after the date was announced, we booked 400 seats for next year.

Mr. McLURE: Already all sold out!

Mr. MACDONNELL: Interest on C.N.R. investments. What is the C.N.R. investment represented by? Bonds?

Mr. MCGREGOR: No, by capital stock certificates.

Mr. MACDONNELL: Would you say how this amount is arrived at?

Mr. MCGREGOR: It is an interest rate and it is paid in the form of interest, and the determination of the rate, which is three per cent, was based on the cost to the C.N.R. of financing that \$25 million of capital advances to T.C.A.

Right Hon. Mr. HOWE: It is inherent in the Act that parliament passed to increase the capital of T.C.A. The capital was to be provided by the C.N.R. and the return would be three per cent. It reads in the balance sheet as a common stock, but if you read it in conjunction with the financing Act it is really a debenture.

Mr. MACDONNELL: When you begin to make bigger earnings will that get up to more than \$400,000?

Right Hon. Mr. HOWE: No, they will only get a fixed interest on the capital they put up, which is presently \$25 million. The balance under the Act is supposed to go to the government.

The CHAIRMAN: Do you get an interest credit on the amount which you deposit with the Canadian National Railways?

Right Hon. Mr. HOWE: Yes, an arrangement has been made that we can now deposit our depreciation accounts with the Canadian National Railways and they will allow us three per cent on the amount of the deposits.

Mr. MACDONNELL: It must be almost a unique capital stock.

Right Hon. Mr. HOWE: It is. We hope it does not upset the income tax people.

The CHAIRMAN: Capital budget. Any questions on capital budget?

Mr. MACDONNELL: This means that we are supplying, that public funds are supplying \$3,600,000, does it not?

The CHAIRMAN: That will come out of surplus, will it not?

Mr. MCGREGOR: It means we are asking for no capital. Our capital expenditures will come out of depreciation accruals currently developed during the year.

Mr. FULTON: What does the revote mean? Is that a term in your own budget? It is not a revote by parliament?

Right Hon. Mr. HOWE: It is a revote of the Trans-Canada Airlines internal budget. We are not asking parliament for any money at all.

The CHAIRMAN: Gentlemen before adjourning, I should report to the House today the votes 485, 486 and 493 of the Canadian National Railways. Would tomorrow afternoon be convenient for members of the committee to prepare the general report, the Canadian National Railways and the Trans-Canada Air Lines, and to discuss any suggested recommendations or anything of that kind?

Mr. MACDONNELL: There is one thing I would like to ask. I notice in reading the minutes of last year that the suggestion to appoint additional directors was made and that Mr. Howe spoke sympathetically about it.

Right Hon. Mr. HOWE: I may say that it is quite a job, as you know, to open up these Acts. I thought the next time we opened the Canadian National Railways Act we would add two directors, but I would not like to open the Act for that purpose only. The clamour for new directors seems to have died down. I do not see how we can add more directors without opening up the Act. However, there will be an occasion before long to open this Act.

The CHAIRMAN: My attention has been called to the fact that the Banking and Commerce Committee may have a meeting tomorrow afternoon as well as tomorrow morning. Would this afternoon at four be convenient for members to consider our report?

Agreed.

Before we adjourn, on behalf of the committee, Mr. McGregor, I do want to congratulate you and your entire staff on the extremely successful performance in 1951.

Mr. MCGREGOR: Thank you very much.

The meeting adjourned.

APPENDIX "A"

The North Atlantic passengers through the Montreal gateway for the year 1951:

Royal Dutch Air Lines (K.L.M.)	819
Air France	1,028
British Overseas Airways Corporation.....	6,038
	<hr/>
	7,885
	<hr/>
Trans-Canada Air Lines	7,133
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HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

JUN 16 1952

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, JUNE 10, 1952

Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters.

WITNESS:

Donald Gordon, C.M.G., LL.D., Chairman and President, Canadian National Railways.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952

ORDER OF REFERENCE

MONDAY, June 9, 1952.

Ordered,—That the name of Mr. Chevrier be substituted for that of Mr. Benidickson on the said Committee.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, June 11, 1952.

The Special Committee on Railways and Shipping, owned, operated and controlled by the Government, begs leave to present its

FOURTH REPORT

In conformity with an order of reference dated Monday, June 9, 1952, your Committee has considered the following Bill and has agreed to report the said Bill with amendments:

Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters.

A copy of the evidence taken in respect thereto is appended.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 10, 1952.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government met this day, at 4.00 o'clock p.m. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Cavers, Chevrier, Cleaver, Fraser, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McLure, Pouliot. (13).

In attendance: The Hon. Lionel Chevrier, Minister; Mr. J. C. Lessard, Deputy-Minister; Mr. W. J. Matthews, Q.C., Director, Legal Services, Department of Transport; Mr. Donald Gordon, Chairman and President, Mr. T. H. Cooper, Vice-President (Accounting), Mr. S. W. Fairweather, Vice-President (Research and Development), Mr. A. Clarke, Auditor of Revenues, Canadian National Railways; Mr. John L. O'Brien, Q.C. and Mr. John J. Connolly, Q.C., Counsel for the Canadian Pacific Railways.

The Committee considered Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters, as referred by the House on Monday, June 9.

The Minister of Transport made a brief statement on the purpose of the Bill.

Mr. Donald Gordon, Chairman and President of Canadian National Railways, also made an introductory statement.

The Committee agreed to consider the Bill clause by clause.

Mr. Donald Gordon was examined. He was assisted by Messrs. Cooper, Fairweather and Clarke.

Clauses 1 to 5 inclusive were considered and adopted.

Clause 6, sub-clause (1):

Mr. Chevrier moved that after the word "value" in line 7, the following words be inserted "*when added to the par value of shares of such stock purchased under sub-section (2).*"

Said amendment was agreed to and clause 6 as amended was adopted.

Clauses 7, 8 and 9 inclusive were considered and adopted.

Clause 10, sub-clause (3):

Mr. Chevrier moved that the word "are" be inserted after the word "railways" in line 9.

Said amendment was agreed to and clause 10 as amended was adopted.

Clauses 11 to 18 inclusive were considered and adopted.

Clause 19, sub-paragraph (c):

Mr. Chevrier moved that the words "value of" be deleted in line 42.

Said amendment was agreed to and the clause 19 as amended was adopted.

Clause 20 was adopted. Schedules A and B and the title of the Bill were adopted.

The Bill as amended was adopted.

It was agreed that the Bill be reported as amended as a Fourth Report to the House.

At 6.05 o'clock p.m., the Committee adjourned to the call of the Chair.

ANTONIO PLOUFFE,

Clerk of the Committee.

EVIDENCE

JUNE 10, 1952.

4:00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

As to the present reference, bill number 308, I will call the preamble of the bill and the minister will make a short statement, as will Mr. Gordon; then I think it will be helpful if we had general questions before going into the bill a clause at a time. Mr. Chevrier?

Hon. Mr. CHEVRIER: For the information of the committee, I submit a brief outline of the provisions of bill number 308.

The government has been, for some considerable time, considering the matter of relieving the Canadian National Railways of a portion of its present heavy fixed interest charges. The present fixed interest charges of the railway are generally recognized as being out of proportion to the earning power of the railway system.

The government, in December 1948, set up a royal commission to enquire into transportation matters coming under the jurisdiction of parliament, and one of the terms of reference to this commission was to review and report upon the capital structure of the Canadian National Railway Company. The report of this commission was made available to the government in February, 1951. I am sure all the honourable members of this committee have read this report, and will have noted that it contained certain recommendations regarding a revision in the capital structure of the Canadian National Railway Company.

Following the receipt of the report of the royal commission, the government arranged for an interdepartmental committee, comprised of representatives of the departments concerned, to review and report upon the recommendations regarding the recapitalization of the railway. This committee was free to make recommendations as to alternative methods of recapitalization which might appear to be preferable to the specific methods suggested by the royal commission. The bill we are now considering is the result of the recommendations of this committee. The main provisions of the bill are:

1. The exchange of interest-bearing government loans outstanding at December 31, 1951 against the company in the amount of \$736,385,405 for 4 per cent preferred stock of the company, having the same par value. This would convert the amount from a fixed interest-bearing debt, to equity capital, and the amount represents 50 per cent of the total fixed interest-bearing debt of the company at December 31, 1951, which will result in an annual interest saving to the railway of \$22,154,926.

2. In order to relieve the railway of its obligation to pay interest for a period of 10 years after December 31, 1951 on further interest-bearing government loans totalling one hundred million dollars outstanding at December 31, 1951, government loans aggregating this amount will be exchanged for a security of the national company falling due for payment on January 1, 1972. The interest rate on the security to be issued by the company will be determined by the Governor in Council, with the company relieved of the payment of interest thereon for a period of 10 years after December 31, 1951. Annual interest on the government loan totalling one hundred million dollars would amount to \$3,549,908 which the railway will be relieved of paying for a period of ten years.

3. In order to permit the company to finance a portion of its capital expenditures for the years 1952 to 1960 inclusive, by the issuance of securities other than fixed interest-bearing, the government will purchase annually 4 per cent preferred shares of the company to the extent of 3 per cent of the annual gross revenues of the national system for the 9-year period. Funds received by the company from the sale of the preferred shares to the government will be used to meet approved capital expenditures of the railway system.

4. The capital stock of the Securities Trust, consisting of 5 million shares of no par value now held by the government, will be transferred to the National Company in exchange for an equal number of shares of no par value of the capital stock of the Canadian National Railway Company.

The proposed revision of the capital structure of the company does not increase the net debt of Canada as shown in the public accounts. The securities of the railway, received by the government in exchange for government loans, will continue to be shown in the balance sheet of Canada as an active asset. The value of the shares of the Securities Trust is presently carried in the public accounts as a non-active asset, and the Canadian National Railways' stock received in the transfer will likewise be shown as a non-active asset.

Honourable members will note that the provisions in this bill vary from the recommendations of the royal commission, but after the Honourable members have had an opportunity of making a close study of its contents, I think it will be generally agreed that its provisions will provide the railway with approximately the same quantum of relief from interest payments as recommended by the royal commission, and also result in a simpler, more logical and more flexible capital structure.

The CHAIRMAN: Thank you, Mr. Chevrier. Mr. Gordon?

Mr. DONALD GORDON, C. M. G., (President, Canadian National Railways): Mr. Chairman, I have prepared a brief introductory statement of the position and perhaps it traverses some of the ground the minister has already covered, but with your permission I will read it as I have it prepared.

From the year 1915 when the Grand Trunk Company threw up its hands with respect to its subsidiary the Grand Trunk Pacific Railway, public attention has been directed to the unsatisfactory financial position of the railways which are now known as Canadian National Railways. Each succeeding railway management has pleaded that something should be done to remedy the state of affairs. Three royal commissions have investigated the problem and recommended to the Government that corrective action be taken. The Capital Revision Act of 1937 was not intended to effect a satisfactory or final adjustment of the capital structure of the railways. It was left for the recent Turgeon Commission to make specific recommendations as to the amount and form of relief which should be given in order to bring the fixed charge debt of the Railway into a reasonable balance with its earning power.

The underlying causes which have created the excessive burden of fixed charge debt were as follows:

First: The initial and major cause was that, when taken over by the government, the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific Systems were insolvent. They had broken down and had been kept going only through large advances of public money. These three bankrupt railways together with the railways known as the Canadian Government Railways were consolidated to form Canadian National Railways. Operations as a unified system commenced January 1, 1923.

In the five years prior to 1923 the four railways failed by \$59 millions to earn even their operating charges, and of course there was nothing available for the payment of interest on the outstanding debt. As of the date of

consolidation the funded debt of the system held by the public amounted to \$804 millions on which there was an annual interest charge of \$35·6 millions, in addition to an annual interest charge payable to government of \$28·2 millions. It will be seen that, at the outset, the newly organized system was required to shoulder a tremendous load of debt, the interest on which was quite beyond its capacity. The new organization took its first steps, therefore, lugging a financial ball and chain of crippling proportions.

Second: When the government itself operated the Canadian Government Railways (meaning the Intercolonial Railway, the National Transcontinental Railway, the P.E.I. Railway, etc.) the capital requirements were provided by the government free of interest to the railway. Subsequent to consolidation the Canadian National was required to finance the capital requirements of Canadian Government Railways, and to assume the interest charges on such additional capital. As of the date of our submission to the royal commission \$140 millions had been expended by Canadian National for account of the Canadian Government Railways property investment and this has added \$4·7 millions to the fixed charges of Canadian National.

Third: To co-ordinate into one unified system the four separate and in some respects competing railways necessitated large expenditures. The work comprised the building of connecting lines and cut-offs to permit a more economical routing of traffic and joint use of terminals, stations, offices and other facilities. Grade reductions were undertaken, terminals were enlarged and modernized, some sections of the railway were double-tracked, heavier rail laid, bridges, trestles and culverts strengthened or replaced with permanent work. On a railway with over 21,000 miles of first main track in operation it is understandable that large sums of money were involved.

Fourth: In addition, lines which have been acquired or built for reasons of public policy have been added to the System. The most recent example is the entrustment of the Newfoundland Railway and Steamships to Canadian National for operation as one of the terms of union of Newfoundland with Canada.

The most convincing evidence that the fixed interest charges of the railway are excessive, and the extent of the excess, is to be found in the results of operation for the 26-year period 1923 to 1948. They are as follows:

	26-year period	Average per annum
Operating revenues	\$7,329,722,601	\$281,912,408
Net revenues	962,146,897	37,005,650
Income available for fixed interest	719,172,578	27,660,483
Fixed interest	1,238,970,214	47,652,700
Income deficit	519,797,636	19,992,217

I would ask the committee, if I may interject here, to bear these figures in mind. They will show the simple proposition of where these figures were excessive.

These are the figures submitted to the royal commission. In 1949 the income deficit was \$42,043,000; for 1950 \$3,261,000; last year it was \$15,032,000; and our budget for 1952 forecasts a deficit of \$18,025,000. The average deficit for these four most recent years is \$19,590,000. The record is clear that the railway cannot be expected to earn the interest charges for which it has been made responsible. On its record to date the annual deficiency is in the order of \$20 millions.

The record of the past does not correctly appraise the situation confronting the railway in the future. In the 26-year average nothing is included for

Newfoundland. Last year our deficit in Newfoundland was \$4,922,000, and this year it is estimated it will be \$4,896,000. The \$20 millions should therefore be increased to \$25 millions.

An adjustment must also be made with respect to depreciation of equipment. Depreciation accruals were only taken up in the accounts of the railway from 1940 forward. Prior to that the accounts were stated on what is known as the retirement basis. It is estimated that if the accounts from 1923 forward had made provision for depreciation of equipment on the basis on which the accounts are stated today, the average annual income deficit of the 26-year period would have to be increased by a further \$5 millions.

This total of \$30 millions a year—that is the \$20 million I mentioned, plus the \$5 million for Newfoundland, plus the \$5 million for depreciation—was the basis of my submission to the royal commission and in order to forestall the further accumulation of fixed debt it was also proposed that the Management should be allowed to re-invest some of the surplus which may be earned in the more prosperous years, thereby avoiding the fixed interest penalty which now attaches to each new dollar invested in the property.

I turn now to the proposed remedy:

The Royal Commission in its conclusions found, and I quote: "The Canadian National Railways has established a case for reduction of its fixed charges and for the desirability of the Company being able to accumulate out of earnings a reserve or 'something to come and go on'".

The specific recommendations of the commission in brief were intended to relieve the railway of fixed interest charges amounting to \$21,798,000, and they would also relieve the railway of the burden of the operating loss of about \$4 millions in respect of the Newfoundland Railway and Steamship services, or a total relief of \$25,798,000 a year. In addition the commission recommended that some provision be made out of net earnings, when available, in order to finance future additions and betterments.

The plan as contained in Bill No. 308 provides a remedy which differs somewhat from the plan recommended by the commission but the difference is in form rather than in the quantum of relief, and in my opinion the plan in the bill is more factual, more practical and more easily understood. My reasons for this opinion briefly are:—

- (a) The commission assumed that the Canadian National would continue to be exempt from income tax but the situation has been changed materially by reason of the recent amendments to the Income Tax Act. Under section 74(A) of the Act crown corporations are now subject to tax. The use of income debentures as recommended by the commission in all probability would have eliminated any likelihood that Canadian National would pay tax, as the interest on such income debentures would substantially all be deductible in computing the amount of income subject to tax.
- (b) There are reasons why it is not advisable to segregate the financial results of the operations of the Newfoundland Railway and Steamship services from the general accounts of the Canadian National Railways. Although the relief granted by the bill is less than what would be the case under the commission's recommendation, I accept it as being the more preferable method.
- (c) The commission's proposal that losses, if and when realized, should be charged against accumulated reserves set aside to finance additions and betterments, appears to be contradictory and impractical. The formula adopted in the bill is more workable, and the results will be more dependable, and will better relate the disbursements on additions and betterments in any given year to the volume of business done during that year.

- (d) Income bonds, as recommended by the commission, have largely been used in the recapitalization of corporations emerging from bankruptcy proceedings, and to me at any rate, have the odour of failure or bankruptcy attached to them. I think it is important to exclude any suggestion of this sort from the capital expenditure of Canadian National.

Bill 308 proposes to relieve the railway of fixed charges amounting to \$22,154,926 per annum. This interest is not cancelled outright, it is changed from the category of a fixed charge and becomes payable only if earned in the form of a dividend on the preferred stock. The bill also proposes to relieve the railway for an initial period of 10 years of interest amounting to \$3,549,908 per annum, this in partial recognition of the burden imposed on the railway as a result of the entrustment to it of the Newfoundland Railway and Steamship services. Together the annual interest relief is \$25,704,834 which may be compared with the \$25,798,000 recommended by the commission.

The bill further provides that the government will provide funds to finance in part our capital expenditures in each of the initial 9 years 1952-1960. Based on last year's revenues the amount of such financing would approximate \$18,700,000 per annum in the form of 4% preferred stock. Perhaps the best test of the reasonableness of this amount may be to compare it with the opinion of the Board of Transport in its judgment in the 21% freight rate case dated March 30, 1948. I quote the Board: "A railway company, as in the case of other enterprises, should have something in addition to 'come and go on', to provide for contingencies and to help equalize the result of poor years with good years, and to have something, if necessity arises, to put back into its railway operation undertaking for the improvement of the services which it is required to furnish." The board found that in the case of the Canadian National Railways a reasonable amount would be \$16,777,000. The \$16,777,000 represents 3.83% of our gross revenues in 1947, the results of which year were under review by the board at that time.

I mention that payment to measure it against the reasonableness of the 3 per cent gross revenue as mentioned in the bill.

Both in the case of the relief afforded in connection with the Newfoundland Railway and Steamship Services and in the formula for financing part of future capital expenditures through the issue of 4 per cent preferred stock, a most essential principle has been established and while an expiry date for this relief is stated in the bill I assume the measure of continuing relief after such expiry dates will be a matter for review by government at that time. Further, I take it for granted that if any lines acquired in the national interest and entrusted to the Canadian National System, or development lines are to be built, their effect on the operating results of the Canadian National System and any necessary capital or other contributions required for them will be settled at the time such arrangements are made.

The general desirability of the adjustment proposed by this legislation has been discussed on many occasions. The Turgeon Commission was given the task of bringing forward specific recommendations and did so after hearing evidence from all interested parties, and in particular from qualified officers of the Canadian National Railways who have given this matter intensive study over many years. I appeared before the royal commission to give my personal views and more recently accompanied by officers of the railway, have discussed with government officials the details of the legislation now proposed. I take it that all this ground need not be traversed at this time and it remains for me to summarize four points for the benefit of this committee.

- (1) That the legislation will enable the Canadian National Railways to produce a statement of its annual operations on a basis that will be readily comprehensible to the public.

(2) That the Canadian National Railways, on the average, should be able to provide out of its own earnings reasonable depreciation, interest on its outstanding debt, income tax, and have something available for a dividend on its preferred stock.

(3) That the need for the capital revision is recognized by all shades of public opinion and that the implementation of it will be a major force in a stimulation of the morale of officers and employee alike, something which is bound to be reflected in the operating results of the property.

(4) That the legislation now before us makes the necessary adjustments and meets the essential points of the Royal Commission recommendation, as well as the views of the Canadian National Railways management in a practical, simple and workable fashion.

The CHAIRMAN: Thank you, Mr. Gordon. Now, is it the wish of the members of the committee that we should have general questions now, or shall I call the sections of the bill?

Shall section 1 carry?

Carried.

Section 2, definition:

Carried.

Section 3, minister to release national company from claims by Her Majesty:

Shall section 3 carry?

3. (1) The Minister shall, by instrument in writing, release the National Company from all claims by Her Majesty to payments falling due after the thirty-first day of December, 1951, on account of principal and interest, in respect of each of the loans specified in the first column of Schedule A to the extent specified in the second column of the said Schedule, the total principal amount so released to be \$736,385,405, being fifty per cent of the total indebtedness of the National Company to Her Majesty and the public as of the thirty-first day of December, 1951, on account of borrowed capital.

(2) In consideration of the release by the Minister of the claims specified in subsection one, the National Company shall issue and deliver to the Minister 736,385,405 shares of four per cent preferred stock of the National Company.

Mr. MACDONNELL: I do not know how that figure is arrived at. I found the actual operation of taking the indebtedness to the public and the indebtedness to the government and taking half of it as a method of arriving at the figure, but I was not able to see any compelling logic in it. On the face of it you would almost think, first of all, that they are going to pay the debt to the public; is that the idea? Which, of course, doesn't make much sense, but I don't know. It reminded me of a man who was said to have done a very good bit of counting as to the number of cows in a field. He was asked how he arrived at the number and he said, "I counted all the legs and divided that by four".

Mr. GORDON: I heard it another way.

Mr. MACDONNELL: So did I, I was just putting it politely. But couldn't we have a word as to just how this is arrived at? Of course, roughly, Judge Turgeon shows the net amount, but it was not the exact amount although it is almost the same; so you get the same, actually almost the same relief under this as under the Turgeon recommendation.

Mr. GORDON: I think two comments could be made there: one is, that we were concerned with a quantum of relief from fixed interest, I mean the interest charge to be forgiven, so to speak. The second thing is that we felt very strongly that there should be no diversification between the debt due to the government by the Canadian National and the debt due to the public, and that it was the total debt of the system with which we were concerned.

Mr. MACDONNELL: In so far as your company was being relieved?

Mr. GORDON: In so far as it is liability. When we borrow from the government we want to have it perfectly clear that our obligation to pay that money is just as precious as our obligation to pay it if we should borrow it from the public. Therefore, in arriving at any adjustment, we meticulously observed that we were dealing with the total debt of the Canadian National, regardless of who owned it. We took the total debt of the Canadian National and we found how much of that debt should be relieved of interest obligations and we came out with 50 per cent as a nice round figure in connection with the total debt.

Mr. MACDONNELL: Was one of your reasons for not wanting income bonds because it deferred the time when you would be liable to pay income tax?

Mr. GORDON: The commission recommended income bonds, but personally I never liked income bonds for the reason that I stated. I did not like income bonds because they generally arise out of bankruptcy proceedings and they represent, as you well know, largely a deficiency as in the case of the United States railways. I think that is where income bonds originated. But apart from that, shall I say, odour of decay, when it was decided that all crown companies should become liable to pay income tax, we of the Canadian National Railways management rather welcomed that decision because if we were going to operate in the way a business organization should be operated, it should be subject to all the disadvantages as well as advantages of a private corporation. But with a load of income bonds, they would have been payable, and deductible from our earnings, before income tax.

Mr. MACDONNELL: That is clear.

Mr. GORDON: Yes, they would be payable, or deductible from our earnings before income tax became payable. That was our understanding.

Mr. MACDONNELL: You must be almost the first man in existence who would want to rush in to pay income tax.

Mr. GORDON: Mr. Cooper has the ruling with respect to the income tax and I shall ask him to read it.

Mr. COOPER: Section 12(1) of the Act reads:—

- In computing income, no deduction shall be made in respect of
- (f) an amount paid by a corporation other than a personal corporation as interest or otherwise to holders of its income bonds or income debentures unless the bonds or debentures have been issued or the income provisions thereof have been adopted since 1930
 - (i) to afford relief to a debtor from financial difficulties and
 - (ii) in place of or as an amendment to bonds or debentures that at the end of 1930 provided unconditionally for a fixed rate of interest.

I think in our case, income bonds would meet the requirements of the Act.

Mr. GORDON: That is what it would have been, unless we could have converted the bonds bearing a fixed rate of interest into income bonds under the commission's recommendation. With the transfer of that load into income bonds I myself could not see any conceivable means of ever having any money

left over to pay income tax, and we would rather pay income tax and set ourselves up as properly comparable with a similarly constituted private corporation.

Mr. MACDONNELL: I have one other question: We all agree that some modification of the debt was called for and was proper; and yet, in a way, I myself shrink a little from taking \$736 million and turning it into stock which, at the present time, is pretty far removed from having any great value. Did you consider that aspect of it? You are taking \$736 million here, subject to an increase as the Minister of Finance buys more preferred stock, and you are going to have \$349 million of common stock, and another \$396 million; and that gives you altogether something over \$1 billion one hundred million. Now do you not think it would affect your operating? I just wondered whether you considered that aspect of it?

Mr. GEORGE: Mr. Chairman, would the member mind speaking up?

Mr. MACDONNELL: As I was saying, the method provided in section 3 means that we are going to have \$736 million of preferred stock, and also further additions as the minister buys more preferred stock under other clauses; and secondly, that the common stock is stated to have a value of \$396 million; so we are going to have a huge equity created, and to have what was a debt turned into a proprietorship.

Mr. GORDON: If I may say so, I made this statement with the suggestion that we expected—that the management expected that the Canadian National, on the average, will be able to provide out of its own earnings a reasonable amount for depreciation, pay interest on its outside debts, pay income tax, and have a dividend available for its preferred stock, maybe not 4 per cent in any one year, but there will be something. Remember that in the past we were short, and that our so-called income deficiency represented the amount by which we were short of paying the government the full amount of interest which we owed. Putting it in terms of last year, we showed last year an income deficiency of \$15 million; but actually, the interest owing by us to the government was \$23 million. So we did, in fact, pay the government a net payment of \$8 million; but by the bookkeeping arrangement that went on, we ended up by showing a deficit of \$15 million. However with this adjustment we won't show a deficit. We would rather show that we would be paying the government taxes of \$3,791,000 and dividends on preferred stock of \$4 million or \$5. These are round figures. So it would appear in this that we are paying something.

Mr. MACDONNELL: You did point out that your average shortage over the last "X" years, or let us say, 20 years, was, roughly, \$20 million.

Mr. GORDON: That is right.

Mr. MACDONNELL: To which you added \$5 million from Newfoundland, and bonds and other things making \$30 million.

Mr. GORDON: Including depreciation, yes.

Mr. MACDONNELL: Would you just say a word to indicate why, notwithstanding the \$30 million, you should have been short and to the fact that you are only going to get a sweetening of 22 to 3 and that you are still going to be in a position to do just what you said.

Mr. GORDON: We have got a saving of annual interest charges, and in addition to that, we will be getting in the form of additional equity capital, 3 per cent of our gross earnings, and the amount will be roughly \$20 million a year in equity capital which will be coming into the property. And in that respect we would save interest on it because normally we would have to

borrow that money at fixed interest rates, by going to the market. So that helps us to build up; it starts in the first year; but in due course, over a period of ten years, we would be saving \$6,300,000 in interest charges.

Mr. MACDONNELL: Am I right in thinking that the \$15 million which you just mentioned would still leave you, judging by the results of the last 2 or 3 years, with a substantial amount of additions and betterments, for which you would still need to borrow?

Mr. GORDON: Yes; and the amount which the Minister of Finance is instructed to buy there in the form of preferred stock, which we are required to put into use for additions and betterments, when added to depreciation funds would be about, roughly, 50 per cent of our needs for additions and betterments. In other words, we would still have to borrow the balance of our needs for additions and betterments.

Mr. MACDONNELL: You would save interest on that \$15 million?

Mr. GORDON: We save interest on the amount of money we are getting, or the money for our stock; and if in due course it builds up our earning position, it would mean that we would be paying it in the form of dividends, but it would not be fixed interest.

Hon. Mr. CHEVRIER: You said something about sweetening it to an amount of almost \$27 million.

Mr. MACDONNELL: Yes.

Hon. Mr. CHEVRIER: The \$27 million which Mr. Gordon mentioned in his statement consists of \$3.5 million for interest over the 10 year period, and \$100 million; and \$1 million for the prairie operations; that is a total of \$26,184,000.

Mr. GORDON: Let me explain it this way: When we made our submission to the Royal Commission, as I said in my statement, I based it on the analysis that the Canadian National needed relief in the form of fixed interest charges of roughly \$30 million a year. What I am saying about this bill is that it means that the actual relief that we get by the transfer of this \$736 million into 4 per cent preferred stock would relieve us of fixed interest charges, plus the adjustments that we get in connection with the \$100 million on behalf of Newfoundland, plus this arrangement in section 6, to give us an amount of equity capital each year, plus the Cabot Ferry adjustment; so that when you put all of those together, you get an effect which, in essence, is the equivalent of \$30 million a year relief. It is not exactly the same in form, but it is the same in quantum of relief, and it is in a better form, in our opinion.

Mr. MACDONNELL: Why was the ferry not brought into it?

Hon. Mr. CHEVRIER: We gave that some consideration but we did not think we should put that in the bill because, as long as there is a statement of government policy, it has to go in the estimates each year.

Mr. MACDONNELL: In other words, you think it is not a railway and they should not be loaded.

Hon. Mr. CHEVRIER: That is one reason; and another reason is that it is considered as a bridge, following the terms of the Union; there is a clause in the terms of union with Newfoundland providing for through rates being considered the same on the ferry as on the railroad.

Mr. POULIOT: Mr. Chairman, is it approximately one-half of your whole indebtedness of the railway?

Hon. Mr. CHEVRIER: It is one-half of the indebtedness as set out in the annual report for 1951, at page 25.

Mr. POULIOT: No. I did not ask about the report. I asked the chairman if it is one-half of the total indebtedness of the company, that \$736 million?

The CHAIRMAN: If you will read section 3, Mr. Pouliot, you will find the statement there, "being 50 per cent of the total indebtedness of the National Company, owing to Her Majesty and the public, as of December 31, 1951."

Mr. POULIOT: Yes; the total indebtedness of the company would be approximately twice as much.

Mr. GORDON: Exactly twice as much.

Mr. POULIOT: And that includes everything.

Mr. GORDON: As of the date of December 31, 1951, yes.

Mr. POULIOT: But, Mr. Gordon, does it include the amount of \$1 billion 280 million which has been cancelled by the Act of 1937?

Mr. GORDON: No. We are talking about the amount outstanding in the form of borrowed capital as at December 31, 1951, as shown on the balance sheet of the railway at that date.

Mr. POULIOT: So it does not include that; it was finished in 1937?

Mr. GORDON: 1937 is not in this statement.

Mr. POULIOT: No, no. It is something which is finished?

Mr. GORDON: That is correct.

Mr. POULIOT: It has been cancelled and it has been finished.

Mr. GORDON: As far as the 1937 revision is concerned, yes.

Mr. POULIOT: Does it include all the amounts which have been voted by parliament in virtue of the Finance and Revision Act?

Mr. GORDON: Let me put it this way: It includes any amounts which have been borrowed by virtue of the Financing Acts, and which remain outstanding either in the hands of the public or in the hands of the government as of December 31, 1951.

Mr. POULIOT: In other words, it represents the amount of money on which you are supposed to pay interest at the present time?

Mr. GORDON: That is correct, as of December 31, 1951.

Mr. POULIOT: And the interest which you would have to pay if you had, therefore, income bonds?

Mr. GORDON: No, no. Income bonds are a different breed of cats altogether. Income bonds, from the very nature of the term, would have interest payable on them, only when the company earns interest. Yet on a funded debt which involves fixed interest charges, there is a legal obligation and the company is required to pay that interest; and if it fails to pay that interest, it defaults. But on income bonds, the company is required to pay interest up to the amount that is available.

Mr. POULIOT: Now, according to section 3 or clause 3 of the bill, the payment of interest on preferred stock would be only eventually?

Mr. GORDON: Yes; and when it is transferred into 4 per cent preferred stock, we would refer to it as dividends; and dividends are only payable if we have enough left over after paying the other things. The first charge would be operating expenses including depreciation; and the second would be payment of interest on bonds outstanding in the hands of the public and the remaining loans from Government, and the third charge would be income tax. The next charge would be payment of dividends on preferred stock. If we failed to earn enough to pay interest on our bonds outstanding to the public, that deficit would again be voted by parliament for that particular year.

Mr. POULIOT: I shall tell you what my sincere opinion about all that financing is. It is, that if you have value for, let us say, \$1,000 in hand, it should be considered as an asset, and you should have to pay interest on that; and the thing means \$1,000 which you have in hand. You understand me?

Mr. GORDON: That is correct.

Mr. POULIOT: I find this legislation very much complicated and I would like to have some clear showing of the active assets in order that it would be easy to understand; and at the present time we have a mass of clauses and it would require quite a library to have all the legislation pertaining to this thing.

The CHAIRMAN: I think that is the reason Mr. Donald Gordon gave us the earnings of the company over the years; that probably is the best indication of the value of the active assets, of what you term as active assets.

Mr. POULIOT: I am interested in the assets that produce earnings. You understand that?

The CHAIRMAN: Yes.

Mr. POULIOT: The assets of the company are not paper; they have bonds or other values?

The CHAIRMAN: What you are asking for, Mr. Pouliot, is an appraisal of the actual physical assets?

Mr. POULIOT: Yes, the actual physical assets and the property, mobile or immobile.

Mr. GORDON: I can quite sympathize with your difficulty, Mr. Pouliot, and I can assure you that I spent many midnight hours trying to find reasons for these things. But after all what we are considering here are the facts of establishing or determining what amount of fixed interest charges this property could support. It was given to the Royal Commission, and the Royal Commission made a very careful analysis and took a great deal of time to do it, and it was assisted by experts all across this country; and they came to a recommendation. Now I know that it is at least logical to talk about the appraised value of property and to seek what its earning ability should be, but I think it is wholly impracticable in the case of a railway which runs from one end of this country to the other; and not only would it take years to work out, but when it was all done it would not mean anything.

The real point is to try to establish the reasonable earning power of this property and to establish what we should reasonably expect from the level of freight rates and efficient management, and on the basis of that, to establish figures which will enable the company to carry on.

The reason we are not talking about the Canadian Pacific is that when our system was put together it incorporated a number of bankrupt companies, and the debts of those bankrupt companies, which had not even earned anything from their inception, were simply written into the books as debts; and obviously it was hopeless in an amalgamation just by magic to expect that a new organization could arise and have money coming out of an amalgamated railway with which to pay interest on its debts, which were the debts of hopelessly bankrupt companies.

What should have been done in 1923 was that it should have gone through some system of bankruptcy proceedings as was done in the case of the United States railways; but because it was taken over by the government of that day, for good and sufficient reasons, it did not follow. So the Canadian National Railways has appeared to be always in the red, although in point of fact, that was not the case, because the Canadian National system has always earned its operating cost; it has always earned its operating expenses and it has shown a surplus in operating revenue; and it becomes a question of how much operating revenue we can expect to get out of the system to pay the debts which were loaded on it, as shown in its balance sheet?

Mr. MACDONNELL: Was there always an operating surplus, Mr. Gordon?

Mr. GORDON: According to my recollection not only have we had an operating surplus, but the figures show that since 1923 we have averaged a surplus of \$27,660,000 available for the payment of interest on debts.

Mr. MACDONNELL: After depreciation?

Mr. GORDON: After depreciation, yes sir. That is the sort of thing of which the public of this country are not aware. They see only red ink figures.

Mr. MACDONNELL: That comes as a surprise to me.

Mr. GORDON: If we should get this bill through, then all the hocus pocus, if I may use the term, in respect of bookkeeping entries will be wound up, and from then on the Canadian National system will have a chance to be judged on its record, and on a basis which will be appropriate and reasonable in respect to what might be expected of it.

Mr. POULIOT: Going into the past, when the Canadian Pacific Railway line was built, they built it through populated areas, while on the other hand the various branches of the Canadian National Railways were built in the wilderness.

Mr. GORDON: It is perfectly true that there were very many thin traffic lines built in the various railways which finally came into the Canadian National Railways. I do not want to discuss the Canadian Pacific finances, but I would like to say that the Canadian Pacific first of all had to engage in fixed interest debt financing but not anything like the extent to which the Canadian National Railways has had to do so. They have been able to get equity financing, and that is why the Canadian Pacific found it so necessary, in making its application for increases in freight rates, to establish its requirements. It must face a test of requirements in the form of payment of dividends and so on, in order to go into the market places, and with respect to the soundness of its management, and its ability to bring in equity capital, when it is needed for legitimate purposes.

Mr. POULIOT: Did they take advantage of their difficulties to make their complaints?

Mr. GORDON: I would not agree with you. I would not accuse the Canadian Pacific of taking advantage of us.

Mr. POULIOT: I just mention the fact.

Mr. GORDON: I have no objection to your stating your opinion, so long as you do not ask me to agree with it, Mr. Pouliot.

Mr. POULIOT: Is not the policy of the various railways that were incorporated into the Canadian National Railways to open new regions, and they had to wait until the population came and until business came also; therefore that was the reason apparently they had some difficulty as to their financing? But, Mr. Gordon, I will tell you what it is. I will try to check up the total amount of debt of the Canadian National Railways. I did not understand very well your answer with regard to the Refunding and Finance Acts. I do not know if it is included twice, such as the amount of \$736 million that is mentioned in clause 3.

Mr. GORDON: I think your difficulty is this, Mr. Pouliot: The railway has borrowed money from year to year, and that money can be borrowed for 10, 15, or 20 years; yet in due course it matures, and that money may be paid out, or it may be refinanced; but you must look at it as one debt, to see how much is outstanding. The essential thing is: What is outstanding? And the debt we are looking at is as of December 31, 1951, the total amount of funded debt outstanding in the hands of the public or in the hands of the government, bearing interest. That was twice the amount of \$736 million.

Mr. POULIOT: It does not include shares without par value?

Mr. GORDON: I beg your pardon?

Mr. POULIOT: It does not include share without par value?

Mr. GORDON: No, no. There has not been any adjustment in that respect. You see, one of your troubles is this: If you look over the years and you add together the amount of money which the Canadian National Railways has borrowed, you will get a wrong figure, because that money, in one particular year, may be borrowed to pay for another loan. You see, you are counting it twice. You should not count the refunding loans because you are just paying for what is maturing. Therefore, in order to get the record straight, you should devote your attention to the figures and to the date, and I refer you to the figures shown in our December 31, 1951, balance sheet for the funded debt outstanding, and it is shown to be \$1 billion 472 million.

Mr. POULIOT: Including all the amounts loaned; including all the amount referred to in the Refunding and Financing Act?

Mr. GORDON: That is correct, through the various years.

Hon. Mr. CHEVRIER: No, no, not necessarily.

Mr. POULIOT: What is that?

Hon. Mr. CHEVRIER: May I interrupt. I think it does not necessarily include that. You have got \$615 million owing; the debt of \$615 million, for instance, would be under the Guarantee and Financing Act; so that I think the question should be answered that part of it is in here and part of it is not, as I understand the question which was put by Mr. Pouliot.

Mr. POULIOT: The answer to my question is all I want to know.

Mr. GORDON: I understand your question to be whether or not the amount outstanding in our funded debt had been included in the Financing Guarantee Act; and whether from the public or borrowing from the government, it has to be authorized by the Financing and Guarantee Act. The only fluctuation in it from time to time is that there are amounts authorized from year to year which have not yet been borrowed; but to the extent that we have borrowed, they have all been authorized in some Financing and Guarantee Act.

Mr. MACDONNELL: You have to add up all those amounts, or you may get a wrong total.

Mr. GORDON: Yes, and there may be refinancing, or there may be an amount authorized which we have not yet borrowed. For instance, you will have a Financing and Guarantee Act arising out of our budget this year that will authorize us to borrow in order to meet our commitments, but until we actually borrow it, it will not appear in our balance sheet.

Hon. Mr. CHEVRIER: Yes, and there are some amounts in the Financing and Guarantee Act which are still outstanding I mean to date, between \$736 million and \$857 million held in special funds.

The CHAIRMAN: \$121 million odd will still be in after this write-off.

Mr. GORDON: Oh, yes. Once this \$736 million is converted into 4 per cent preferred stock, there will still be an amount of funded debt outstanding.

Hon. Mr. CHEVRIER: Yes; and that has been voted in the Financing and Guarantee Act.

Mr. GORDON: That is right, as at December 31, 1951, when this adjustment is made.

The CHAIRMAN: We will have \$121,188,369.

Mr. GORDON: Yes; the amount on the revised balance sheet as at December 31, 1951, after this adjustment is made, would show that we have a funded

debt held by the public of \$615,197,000, and we would have advances from the government of \$121,188,000, which makes a total of \$736 million, being half of what we refer to in here, in the bill.

The CHAIRMAN: Are there any further questions, Mr. Pouliot?

Mr. POULIOT: Not at this point, Mr. Chairman.

The CHAIRMAN: Shall section 3 carry?

Carried.

Mr. GEORGE: Some time ago we received a circular letter from a chap in England in connection with stocks and bonds in connection with the Grand Trunk Railway, asking that we pass an Act on their behalf. I was wondering if Mr. Gordon could tell us the status of those bonds.

Mr. GORDON: In a general way, I can say that all the liabilities which were recognized as liabilities of the component parts of the railways which came into the Canadian National Railways have been discharged, and that the claims to which you refer—I do not want to get too involved in history—represent the holding of certain stocks which were found valueless by the courts. After consolidation, after the taking over by the government, that was the decision arrived at through the courts. They eventually wound up at the Privy Council, and the result was that only the stocks—not the bonds but the stocks—certain of the stocks were held to have no value to the holders of those stocks in the United Kingdom. And even today there is a feeling that it was an unfair decision, but it was a decision made by the highest court of the land, holding that certain of those stocks had no value. I am speaking again from my reading of history, but perhaps Mr. Cooper would verify what I have said.

Mr. COOPER: Mr. Gordon is entirely correct. We never repudiated any of the bonds of the Grand Trunk, but the value of the first, second and third preference stocks and of the common stock was arbitrated and found to be worthless. That finding was taken through the appeal courts and was upheld.

Mr. GORDON: I think it is important to remember that that was stock of the Grand Trunk Railway and not of the Canadian National Railways. It was one of the bankrupt companies which was taken over because they were not capable of running it. But the actual value of the stock was held to be worthless, and this is just an agitation they are keeping up on it.

Mr. MACDONNELL: I remember the tenor of that letter and the claim is that we should urge the country to pay. I do not think they suggest seriously that there is a legal claim still.

Hon. Mr. CHEVRIER: They say that the Department of Transport has ignored their claim, and that because of the decision of the courts they would like us to bring in a bill under which we would pay them \$500 million.

Mr. FRASER: Mr. Gordon said that if those companies had been taken over as bankrupt, the matter of this debt would not be here; and if they had been taken over as bankrupt, then there would be no claim whatsoever.

Mr. GORDON: That is right, there would be no claim at all. And you will remember that there was a large amount of bonds outstanding, and that the proprietorship of those bonds was recognized as a mortgage on the property, and they were paid in full; and the payments which were made on the bonds were held to be representative of the value, if not more than that, of the property. Therefore, there was nothing left for the common stockholder or for any other shareholder who had an equity position on it.

Mr. FRASER: It was the same as if a receiver had taken it over?

Mr. GORDON: That is right. It was arbitrated first in Canada and then it was taken to the Privy Council and that decision was formally upheld.

Mr. MACDONNELL: The minister will have to make one of his disarming refusals.

The CHAIRMAN: Shall section 4 carry?

National companies relief for ten years.

Carried.

Shall section 5 carry?

Ministers to surrender instruments of indebtedness for cancellation.

Carried.

Mr. MACDONNELL: I am not sure that I fully understand. This is the security section?

Mr. GORDON: I think I do.

Mr. MACDONNELL: You said that there was only one man in the world who understood it.

The CHAIRMAN: We have him here with us today.

Mr. GORDON: That was a very badly timed joke on my part which I hasten to correct. Mr. Cooper has accepted that description of himself, but I can assure you that there are other people who do understand it, although Mr. Cooper, because he was so intimately associated with it that when we talked of the securities trust, we thought of Mr. Cooper; but that is not the securities trust in section 5.

Hon. Mr. CHEVRIER: This is really only the mechanics of it. The minister is to surrender the securities under the schedule.

Mr. GORDON: The securities mentioned in the schedule are outstanding in the hands of the minister, and these are cancelled when we give him 4 per cent preferred stock in exchange.

The CHAIRMAN: Section 6? "Minister to purchase shares."

Mr. POULIOT: This is interesting. This is not included in the amount mentioned in the other half, in the amount mentioned in paragraph 3?

Mr. GORDON: Are you referring to section 5?

Mr. POULIOT: Yes.

Mr. GORDON: Section 5 is the section which gives effect to section 3; it is the implementing section.

The CHAIRMAN: Section 6?

Hon. Mr. CHEVRIER: I have an amendment to submit to section 6. In line 7, after the words "total par value" add "when added to the par value of the shares of such stock purchased under section (2)—

Mr. MACDONNELL: What line is that, please?

Hon. Mr. CHEVRIER: That is line 7.

The CHAIRMAN: Page 4 of the bill.

Hon. Mr. CEVRIER: So that the section would read:

The minister shall, in respect of each fiscal year of the National Company commencing in the years 1952 to 1960 inclusive, purchase at par from the National Company shares of 4 per cent preferred stock of the National Company having a total par value when added to the par value of the shares of such stock purchased under subsection (2), equal to 3 per cent of the gross revenues of the National System in the fiscal year calculated to the nearest dollar as certified by the auditors of the National System.

The object of that is because it has been suggested that the minister might purchase twice in the year an amount equal to 3 per cent; and the only reason for putting it in is to make sure that he will not purchase more than once per year the 3 per cent of the gross revenue.

Mr. MACDONNELL: Subsection 2 says that he can do it in bits.

Mr. GORDON: Yes, it says he can do it in bits, but under the minister's amendment, if he does it in section 2, he is not again to do it under section 1.

Mr. MACDONNELL: Why is this only for 10 years?

Mr. GORDON: You will recall that in my statement I made an assumption that we were establishing a principle here, and that at the end of ten years I assumed the government of the day would extend the period and would probably review the yardstick, so to speak, of the 3 per cent. We have taken 3 per cent now as a suggestion which seems to be reasonable, and it is for a nine year period, not a ten year period.

Hon. Mr. CHEVRIER: There is no doubt that in 1960 we will have to look at it again.

Mr. MACDONNELL: How did you arrive at 3 per cent?

Mr. GORDON: It was simply a matter of judgment. We said that we wanted to find a means whereby the Canadian National could get equity capital into its property, and what properly should be established as against a fixed interest bearing debt, and the best we could do was to relate it to volume; and we took the gross revenue, which would be a fair indication of the volume of the traffic. The more traffic there was, the more would be the wear and tear on the railway. Therefore, on the basis of past experience with respect to the amount of additions and betterments which go into the property to maintain it in good condition, we thought that about 3 per cent of the gross revenue ought to be about the right figure, having regard to a matter of judgment, and the fact that this is established for a period and there is expected to be a review in the light of experience at the end of 1960.

Mr. POULIOT: If the gross revenue of the railway is \$600 million, and if the government will buy 4 per cent preferred stock, that would be \$18 million.

Mr. GORDON: That is right.

Mr. POULIOT: Then it would mean that instead of paying for a deficit of \$18 million, they will be buying shares in that amount?

Mr. GORDON: Well, now to follow up Mr. Macdonnell's question, we were looking for a yardstick. The Board of Transport Commissioners had looked at the situation in 1947 and they came up with a figure then which was \$16,777,000, but on a different formula altogether.

Mr. MACDONNELL: That was a figure for what?

Mr. GORDON: For the amount that we would need in the form of additions and betterments, held out of our own earnings, or ploughed back into equity capital; and that figure would come out about 3.8 per cent of our gross revenue; but we think that 3 per cent is reasonable.

Mr. MACDONNELL: Probably your actual needs for that purpose would be something like 3 per cent.

Mr. GORDON: No. I do not remember saying that. You mean our annual expenditure?

Hon. Mr. CHEVRIER: He was talking about interest.

The CHAIRMAN: I thought he was talking about different factors altogether.

Mr. MACDONNELL: That would get you about \$18 million?

Mr. GORDON: If our gross revenue were running at the rate of \$600 million, yes.

Mr. MACDONNELL: My point is that in looking back to 1950, to the legislation giving or providing money, my recollection was that over those 2 years, there was an amount of something like \$30 million for additions and betterments in one year, and \$10 million in virtue of the other year.

Mr. GORDON: It varies, yes.

Mr. MACDONNELL: Now, I come back to this: What is your reckoning as to the amount of money you will need on the average, in relation to the \$18 millions for additions and betterments, and in connection with your rolling stock?

Mr. GORDON: We could give it but it will vary definitely, depending on conditions and the availability of supplies. But going back to 1946, the Canadian National actually expended, on an average over the seven years, \$61 million. That was on the low side; and of the \$61 million we financed roughly \$16 million from our depreciation reserves; and if we had under that situation, got 3 per cent in gross revenue from the stock, we could have financed another \$16 million of it, on that basis, and it would have been about 34 per cent of our actual capital requirements. So we would have got about 34·7 per cent of our actual net capital requirements in the years 1946 to 1952, with the year 1952 estimated. These are actual figures.

Mr. POULIOT: In virtue of this legislation, you will be in a position, by means of an order in council, without any other legislation, in virtue of this, and you will proceed from 1951 to 1960.

Hon. Mr. CHEVRIER: It will not be the Minister of Transport, it will be the Minister of Finance.

Mr. POULIOT: Yes, but no other legislation will be necessary to buy stock from the railway.

Hon. Mr. CHEVRIER: No. The Minister of Finance will operate under the terms of this Act.

Mr. POULIOT: And the purpose is that it would prevent you from paying for a deficit from the railway.

Hon. Mr. CHEVRIER: We hope that it will, but it may not necessarily. It will depend on the earning capacity of the railway. It would grant relief in accordance with the terms of the recommendation of the commission.

Mr. POULIOT: I do not care about the commission. I am interested in you and in Mr. Gordon, and I do not pay any attention to the commission, if you will excuse me for saying so.

The CHAIRMAN: Well, if you are too shy to ask the question, may I ask the question for you? Do you consider the relief adequate?

Mr. GORDON: Yes, I do. And may I just return to the figure I gave, for a moment?

The CHAIRMAN: Yes.

Mr. GORDON: I am not sure that I expressed it correctly. I think this will answer your question. If you take the period of 1946 through 1952, you will find an actual expenditure, on investment in road and equipment, of \$429 million; and in that period we would have available from depreciation \$112 million, which would leave us with a net capital requirement of \$317 million; and if we had this arrangement under section 6, we would have received value in the form of the introduction of equity capital and preferred stock totalling \$110 million which would have meant that we would still have had \$217 million to finance, of our capital requirements, which would have been, roughly, one-half of our capital requirements. And that is what I meant when I said it was about 50-50.

Mr. FRASER: That makes \$207 million not \$217 million?

Mr. GORDON: Yes. \$207 million; that is a rough figure.

Mr. MACDONNELL: What is \$10 million!

Mr. GORDON: \$10 million is a hell of a lot of money.

Mr. CHEVRIER: I was taken to task for \$10,000 just recently.

The CHAIRMAN: Section 6.

Carried.

Section 7?

Mr. MACDONNELL: There is one bit of wording there which surprises me a little. I understand this is 4 per cent preferred stock?

Mr. GORDON: Yes.

Mr. MACDONNELL: I suppose that was put in for a certain reason.

The CHAIRMAN: Shall section 7 carry?

Carried.

Section 8.

Mr. POULIOT: Does this mean the issue to the government or to the public?

Mr. GORDON: To the government only.

The CHAIRMAN: Shall section 8 carry?

Carried.

Mr. MACDONNELL: Why is that necessary:

Notwithstanding section 15 of the Canadian National Railways Act, the surplus or deficit of the Canadian Government Railways shall be included in, and deemed to be part of, the surplus or deficit, as the case may be, of the National Railways?

Hon. Mr. CHEVRIER: No, it has not been included since the Capital Revision Act of 1937; since that time it has been included as part of the Canadian National and government account, and this section is simply repeating the wording in the Capital Revision Act of 1937.

Mr. POULIOT: It is probably on account of the letter which the members from eastern Quebec wrote to you, asking that their region be included in the central region, and also on account of the question which was asked of Mr. Gordon about the regions, when they made both ends meet. But I have no objection to it.

The CHAIRMAN: Shall section 8 carry?

Carried.

Mr. POULIOT: I still maintain that the eastern part of Quebec should be transferred to the central region, or that the central region should be extended to Gaspé.

The CHAIRMAN: Section 9?

Mr. MACDONNELL: Just a minute, Mr. Chairman. These figures that we have been dealing with, and on which these calculations are based, have they included the over-all picture, including the Canadian government railways.

Mr. GORDON: Yes.

Mr. MACDONNELL: Perhaps I am taking this answer wrong. When we got your annual report, that included all the railways in your system?

Mr. GORDON: As I understand it, the reference under section 8 is this: that the Canadian National Railways Act originally had it that the Canadian government railways' deficit should be shown separately. Then in the Capital Revision Act of 1937 that was changed, and this represents the provision made

in the Capital Revision Act of 1937 by saying, notwithstanding what section 15 of the Canadian National Railways Act says, the deficit of the Canadian government railways shall nevertheless form part of the over-all deficit or surplus of the National Railways. Another reason for it is that you will find in section 20 that the Capital Revision Act 1937 is now repealed, you see, so that we have to cover that position here.

The CHAIRMAN: Section 9, earnings remaining after payments made to Receiver General.

Mr. MACDONNELL: If Mr. Gordon does well enough to have any money left, you take it away from him by this section.

Mr. GORDON: Discretionary power is allowed in subsection 2.

Mr. MACDONNELL: So as to give the government a chance to be generous!

Mr. FRASER: By that subsection 2, then, the company could buy outstanding shares that the public has now?

Mr. GORDON: Well, in subsection 2, if the Governor in Council agrees, any surplus that we had remaining could be applied in reducing debt. That might be done by taking up a maturing bond issue or we might even buy bonds on the market, but it would likely mean we would take up maturing bonds. Incidentally, Mr. Macdonnell, I hope that you do not take too literally what you said about judging if I am doing well by whether or not the railway can pay a surplus after all these deductions.

The CHAIRMAN: I would not have too much hope over this section.

Shall the section carry?

Carried.

Section 10.

Hon. Mr. CHEVRIER: May I make a suggestion here in subsection 3 of section 10 that the word "that" be taken out, otherwise it does not make sense. That will be in line 6.

Mr. MACDONNELL: I want to ask a question on subsection 1 of section 10, subparagraph (c): The accounts of the national system are to show (a) the value of the no par value capital stock outstanding of the national company, (b) the par value of the four per cent preferred stock outstanding of the national company, and (c) the capital investment of Her Majesty in the Canadian government railways as shown in the accounts of Canada. That simply means at the present moment it will be this \$121 million?

Mr. GORDON: It is shown in the proprietor's equity here, all capital expenditures by the government of Canada on the Canadian government railways, \$379,877,000, shown in the balance sheet. It is the Canadian government railways that is shown in the accounts of Canada.

Mr. COOPER: It was the amount expended by Canada prior to 1923 on capital account on the Canadian government railways.

Mr. MACDONNELL: What is the significance of that now?

Mr. COOPER: We include it in our investment account in the consolidated balance sheet, with a contra credit to the government of Canada on the other side.

Mr. MACDONNELL: From the point of view of an ordinary citizen, they are now one enterprise. It seems to me an unnecessary complication of accountancy to carry it that way.

Mr. COOPER: The Government Railways had cost the government \$380 million, when they were turned over to the Canadian National for operation.

Now, our balance sheet should show the property that has been entrusted to us, so we increased our investment in railway property by \$380 million. Then of course, we must balance the books—

Mr. MACDONNELL: Do not let me get into an argument with an accountant. I am beaten before I start.

The CHAIRMAN: Shall section 10 carry?

Carried.

Section 11, C.N.R. Securities Trust.

Mr. MACDONNELL: One more question on section 10, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. MACDONNELL: Section 10 (2) (a) (ii), the amounts of all capital gains of the national system for the year 1952 and subsequent fiscal years retained by the national company. What capital gains?

Mr. COOPER: During the war we repatriated a large amount of Canadian National securities which were owned by United Kingdom nationals, and in the transaction we gained \$19 million, that is, we bought the securities for \$19 million less than par. That was a capital gain, and it had the effect of increasing the proprietor's equity.

Hon. Mr. CHEVRIER: I suggested taking out the word "that", but the draughters tell me it would be better to put in the word "are" after government railways in the third line, and that would make better sense than taking out the word "that"; so that the line would then read "government railways are included in the net debt of Canada".

Mr. POULIOT: In what line?

Hon. Mr. CHEVRIER: Line 10 of section 10 (3) of the bill. In line 10, after the words "government railways" add the verb "are". That makes sense. Otherwise there is no verb in the sentence.

The CHAIRMAN: Section 11. Shall it carry?

Carried.

Mr. POULIOT: No, no. Mr. Gordon, I asked for the bylaws of the railways and I see in this section there is a mention of the board of directors. I wonder why you have any objection to letting us have the bylaws of the board of directors of the railways.

Mr. GORDON: Are you referring to section 11, Mr. Pouliot?

Mr. POULIOT: Yes. The board of directors of the national company are mentioned there and I take the occasion to ask you this question, because I had a copy, a summary, an extract of the bylaws that were passed in 1927, and I wondered why I could not have the bylaws of the board of directors of the company.

Mr. GORDON: Well, it is a little confusing; this board of directors reference in section 11 has to do with the Securities Trust. Now, is it the Securities Trust that you want the bylaws in connection with?

The CHAIRMAN: I think Mr. Pouliot just sees the words "board of directors".

Mr. GORDON: There are no bylaws in connection with the Securities Trust that I know of.

Mr. POULIOT: No, no, but as the board of directors of the railway is mentioned there, I am asking why we could not get a copy of the bylaws governing the board of directors of the railways.

Mr. GORDON: I think I can make a general statement here. There are all sorts of bylaws tacked up on station walls, bylaws cautioning against spitting on the platforms, with regard to nuisances, and so forth. Certainly we will give you those.

Mr. POULIOT: But I am referring to bylaws concerning meetings.

Mr. GORDON: There are all sorts of bylaws affecting the internal day-to-day management of the company that are not appropriate for release. They have to do with all types of matters.

Mr. POULIOT: Such as playing poker on the train?

Mr. GORDON: Yes, we will give you a bylaw covering that. We do not approve of poker on trains.

Mr. POULIOT: I will tell you in black and white what I would like to have. I would like to have a copy of the bylaws covering the passing of resolutions.

Mr. GORDON: The passing of resolutions?

Mr. POULIOT: What I would like to know is the constitution of the company in virtue of the will of the board of directors.

Mr. GORDON: Yes?

Mr. POULIOT: You must understand what I mean.

The CHAIRMAN: Do I understand, Mr. Pouliot, that you wish to have copies of any bylaws that delegate to the directors the power to pass and to deal with matters by resolution which ordinarily would be dealt with by bylaws?

Mr. POULIOT: No, no, it is not that; what I want is very simple. I want a copy of the bylaws of the board of directors governing their meetings.

The CHAIRMAN: As to when the meetings are to be called?

Mr. FRASER: Or what their powers are?

Mr. POULIOT: Yes.

Mr. GORDON: There is no such thing, Mr. Pouliot. What happens is this, the board of directors meets on a date which is agreed, and in practice we meet once a month. During the course of the board of directors' meetings, questions which come up for discussion sometimes call for formal resolutions covering legal matters, such as the execution of a mortgage or the release of property, or things of that kind. That is just a normal, ordinary resolution and it says, "Resolved that the company agrees to do thus and so." Now, there is nothing formalized in bylaws about that. They proceed in the ordinary way any board of directors proceeds. There is, as I say, a public list of bylaws which refer to the conduct of the public in respect of company property, trespassing, spitting on the platform, committing nuisances on trains, and things of that kind.

Mr. POULIOT: And playing poker on trains?

Mr. GORDON: There is a bylaw on that, and we would be glad to let you have a copy of that, but you can take it in general we on the board of directors proceed as any board of directors does to express its will by resolution.

Mr. POULIOT: Well, there was a bylaw which was passed in 1927, by which I saw that a Deputy Minister of Railways was a member of the executive committee.

Mr. GORDON: There is no executive committee of the board now. There was an executive committee of the board formed by Sir Henry Thornton, and at that time my recollection is that the Deputy Minister of Transport was a member of the board, and as a member of the board he became a member of the executive committee. There has been no executive committee functioning since, certainly, 1931. There has been no executive committee functioning since then, and, therefore, the board discharges its obligations in the form of either a full meeting of the board, or if there is an emergency comes up we will get expressions of opinion either in writing or by telegraphic communication, but the board always acts as a board, and there is no executive committee functioning, as you describe that, since 1931 or thereabouts.

Mr. POULIOT: Well, is there a link between you and the government—not between you, but between the Canadian National management and the government, as there was when Mr. Bell, the Deputy Minister of Railways, was a member of the executive committee?

Mr. GORDON: I would think, Mr. Chevrier could answer that.

Hon. Mr. CHEVRIER: I do not know what the position was in the past that you refer to but the link as it exists today is contained in the various statutes, chiefly in the Canadian National Railways Act, in the Canadian National-Canadian Pacific Act, and the fact that the Governor in Council appoints the chairman of the board of directors.

Mr. POULIOT: Well, for all matters that are discussed between the Department of Transport and the management of the railways, who corresponds on both sides?

Hon. Mr. CHEVRIER: The president of the railway and myself correspond on matters of policy, and on other matters that are not strictly policy. I would think in the vast majority of matters concerning internal management the government appointed them a body to deal with those questions.

Mr. POULIOT: Who are they?

Hon. Mr. CHEVRIER: The president and his board of directors.

Mr. GORDON: Perhaps I could simplify it this way. The link definitely is between the president and the Minister of Transport. If there is any other discussion with the department, it is with somebody either acting for the president or for the Minister of Transport. For example, my executive vice-president might very well talk to Mr. Lessard, the deputy minister, on some functioning matter, but he is always acting for the minister or he is acting for the president, so the link actually is between the president and the minister. That is the answer to your question.

Mr. POULIOT: But you do meet at regular intervals?

Mr. GORDON: The minister and myself?

Mr. POULIOT: Yes—when you have something to discuss together?

Mr. GORDON: Yes, we do.

Mr. POULIOT: And does the Deputy Minister of Transport get in touch with someone other than you to discuss the business of the railways?

Mr. GORDON: That is a general question. There are all sorts of things come up in the course of a day's work that the minister is interested in. He may have to make a statement to the House, for example, touching on the point—and I hate to make reference to it—of a wreck, and the minister might like to make a statement to the House, as I say. He lets it be known to his deputy, and the deputy would get in touch with my operating vice-president if I was not available, and would get information on matters affecting the operation of the railways. I may say that on matters affecting policy, government action or things like that, considered as a matter of government policy between the railway and the government, the conversation and the discussions take place between the minister and myself.

Mr. MACDONNELL: I think Mr. Pouliot is raising an interesting question here, as to whether the government, which represents the people of Canada, would be in closer touch if in fact a government official was on the board—if I interpret Mr. Pouliot's remarks correctly.

Mr. POULIOT: It happened before and I wonder if it would not be a good thing. Of course as you know, Mr. Gordon, we are all friendly to your company.

Mr. GORDON: I have no doubt about that.

Mr. POULIOT: And we want the management to be as successful as possible, and as the government seems to be very well disposed—it has been in the past—I wonder if there could not be closer co-operation between the railways and the government.

Mr. GORDON: Well, I must let the minister speak for himself, but speaking from my point of view I regard the relationship and the day-to-day working association that exists between the Department of Transport and the railways as highly satisfactory.

Hon. Mr. CHEVRIER: The only other closer relationship that could exist beyond what does exist today would be to return to the position of having the deputy, or some other person representing the department, a member of the board of directors, and I doubt whether that is a good thing because the deputy is deputy of a very busy department, and if over and above that he had the responsibility of being a director of the board I do not know how he could fulfil his duties.

Mr. POULIOT: I have the greatest respect for Mr. Lessard, who is one of the most efficient deputies that we have here in Ottawa, but he is not the only one in the department. You have Mr. Frank Connors and others. Mr. Frank Connors is a very able man. He could represent the Department of Transport and save lots of time, both of Mr. Gordon and of yourself.

Hon. Mr. CHEVRIER: That is also a matter of government policy and it has been considered from time to time, and the government has felt that it would not be desirable to do it.

Mr. GORDON: Mr. Minister, will you agree with this, that it should be remembered that the Department of Transport and the Minister of Transport deal with all railway matters, not only matters affecting the Canadian National Railways, and it is very important that the minister and the deputy minister remain in a completely impartial position. Personally I would deplore the idea that the deputy minister, and I say this without any reference to personalities, Mr. Lessard, but I think it would be highly improper for the deputy minister to be required to sit on the board of directors of the Canadian National Railways, discussing a subject which may represent a competitive position with another railway, and then have to go back to his department and sit in judgment on what the policy of the government may be. The minister and his department must remain in an impartial position respecting the whole field of transportation, and that is why, I assume, an independent board of directors for the Canadian National Railways was thought appropriate. Would you agree with that, Mr. Minister?

Hon. Mr. CHEVRIER: Quite.

The CHAIRMAN: Shall section 11 carry?

Carried.

Section 12, object of corporation.

Carried.

Section 13, capital stock. Any questions on section 13?

Carried.

Section 14, powers of trustees.

Carried.

Section 15, secretary of Securities Trust.

Mr. MACDONNELL: Who is this unfortunate individual who has to work without getting paid?

Hon. Mr. CHEVRIER: That has been Mr. Frank Connors for some time.

The CHAIRMAN: Section 16, every company obligated.
Carried.

Section 17, trustees to report annually to parliament.
Carried.

Section 18.

Mr. FRASER: In section 18, it says here, the capital stock of the Canadian Northern Railway has to be held and cannot be disposed of. Now, the Canadian National Railways also have stock or control of other companies, or railways, I should say. Now, why do you pick just one out?

Mr. GORDON: It is a matter of history.

Hon. Mr. CHEVRIER: I was going to say that the reason, I presume, is that when the Capital Revision Act was passed there was a valuation put on that stock. The Canadian Northern Railway stock consists of 180,000 shares with a par value of \$18 million, which was transferred to the Canadian National Railways in exchange for one million no par shares of the Canadian National Railways, with an initial stated value of \$18 million. I presume that is why that section earmarks the Canadian Northern stock, because it has a value.

Mr. MACDONNELL: Does this mean that they can sell and release all the others if they like?

Mr. GORDON: I think the explanation on that, too, is a matter of history. It is a matter of timing. For the period of time the government held the Canadian Northern Railway stock it owned it, but on the amalgamation with the Grand Trunk Railway it never actually took over their stock.

Mr. COOPER: The government owned the stock of the Canadian Northern Railway Company. One of the provisions of the Capital Revision Act of 1937 transferred the stock to the Canadian National Railway Company in exchange for stock of the Canadian National Railway Company. It was a requirement included in the Act that the stock could not be sold under any condition except with the consent of parliament. The government never owned any of the shares of the other companies.

The CHAIRMAN: Section 18. Shall it carry?

Carried.

Section 19, minister to include statement of assistance in public accounts.

Hon. Mr. CHEVRIER: I have an amendment here to suggest in section 19, line 42: "in such a manner as to show the value of property granted," strike out the words "the value of" so that it would read "in such a manner as to show the property granted". The reason for that is that this affects railways other than the Canadian National Railways, and the law as it stands now—the section eludes me at the moment—requires even other railways to show the property, the acreage of the property granted and not the value, and it is suggested that that is the intention of the legislation here.

The CHAIRMAN: Is there also a minor correction here?

Hon. Mr. CHEVRIER: Yes. Mr. Gordon has pointed out the marginal note opposite section 18, which reads ". . . without approval of the Governor in Council", whereas the section refers to parliament, so I think the marginal note should read, "national company not to sell, etc., capital stock without approval of parliament."

The CHAIRMAN: Shall the section carry?

Carried.

Shall section 19 carry as amended?

Carried.

Section 20.

Mr. MACDONNELL: I take it that someone has checked very carefully to see that there is nothing in the 1937 Act which still is not needed to give effect to what was done. Certainly I have not attempted to do it, but you are repealing the whole Act.

Hon. Mr. CHEVRIER: You are repealing the whole Act but re-enacting the greater part of it in this Bill 308.

Mr. POULIOT: Mr. Chevrier, does this section 20 mean that the railway will have to refund to the government the amount of \$1,218,000,000 which was cancelled by the Act of 1937?

Hon. Mr. CHEVRIER: No.

The CHAIRMAN: Are there any questions on schedule A?

Carried.

On schedule B?

Carried.

Shall the title carry?

Carried.

Shall I report the bill?

Agreed.

Thank you, gentlemen.

The meeting adjourned.

HOUSE OF COMMONS

Seventh Session—Twenty-first Parliament, 1952-3

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MARCH 23, 1953
TUESDAY, MARCH 24, 1953
WEDNESDAY, MARCH 25, 1953
FRIDAY, MARCH 27, 1953

C.N.R. Annual Report (1952) and Budget (1953).
C.N. Steamships Limited (1952) and Budget (1953).
C.N.R. Securities Trust (1952).
Auditors' Report to Parliament.
Estimates—Items 467, 471 and 476.

WITNESSES

Mr. Donald Gordon, Chairman and President;
Mr. S. F. Dingle, Vice-President;
Mr. T. J. Gracey, Comptroller;
Mr. F. P. Turville (G. A. Touche & Company).

SPECIAL COMMITTEE ON RAILWAYS AND SHIPPING

- OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: HUGHES CLEAVER, ESQ.

Vice-Chairman: H. B. McCULLOCH, ESQ.

Messrs.

Benidickson	Fraser	Macdonnell
Browne (<i>St. John's</i> <i>West</i>)	Fulton	(<i>Greenwood</i>)
Carter	George	McCulloch
Cavers	Gillis	McLure
Chevrier	Healy	Mott
Churchill	Helme	Mutch
Cleaver	James	Picard
Dumas	Knight	Pouliot
Follwell	Macdonald	Thomas
	(<i>Edmonton East</i>)	

R. J. GRATRIX,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
THURSDAY, March 12, 1953.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs. Benidickson, Bourget, Browne (*St. John's West*), Carter, Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

MONDAY, March 16, 1953.

Ordered,—That the Annual Reports for 1952 of the Canadian National Railways, the Canadian National (West Indies) Steamships, the Canadian National Railways Securities Trust, and the Auditor's Report to Parliament in respect to the Canadian National Railways and Canadian National (West Indies) Steamships, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, together with the following items of estimates for 1953-54:

Vote 467—Prince Edward Island Car Ferry and Terminals—deficit;

Vote 471—North Sydney, N.S.—Port aux Basque Ferry and Terminals—deficit;

Vote 476—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the act.

And that the resolution passed by the House on January 28, 1953, referring certain estimates to the Committee of Supply, be rescinded in so far as the said resolution relates to Votes 467, 471 and 476.

TUESDAY, March 17, 1953.

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1952, the Auditor's Report to Parliament for the year ended December 31, 1952, in respect of Trans-Canada Air Lines, and also the Operating Budget and Capital Budget for the calendar year 1953 in respect of Trans-Canada Air Lines, all tabled earlier this day, be referred to the said Committee.

SESSIONAL COMMITTEE

WEDNESDAY, March 18, 1953.

Ordered,—That the quorum of the said Committee be reduced from fourteen to eight Members.

Ordered,—That the said Committee be granted permission to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

MONDAY, March 19, 1953.

Ordered,—That the Capital Budget of the Canadian National Railways for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

Ordered,—That the Capital Budget of the Canadian National (West Indies) Steamships, Limited, for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

FRIDAY, March 20, 1953.

Ordered,—That the name of Mr. Chevrier be substituted for that of Mr. Bourget on the said Committee.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, March 18, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from fourteen to eight members.
2. That it be granted permission to sit while the House is sitting.
3. That it be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

FRIDAY, March 27, 1953.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, begs leave to present the following as its

SECOND REPORT

Pursuant to the Orders of Reference of the House of March 12, 16, 17 and 19, 1953, this Committee had before it for consideration the following:

1. The Annual Report for 1952 of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Auditors' report to Parliament in respect of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited.
2. The Annual Report of the Trans-Canada Airlines for the calendar year 1952, and the Auditors' report to Parliament for the calendar year 1952, in respect of Trans-Canada Airlines.
3. The Annual Report of the Canadian National Railways Securities Trust for 1952.
4. The capital budget of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for the year ending 1953 and the operating budget and capital budget of the Trans-Canada Airlines for the calendar year 1953.
5. Vote 467—Prince Edward Island Car Ferry and Terminals—deficit.
6. Vote 471—North Sydney, N.S., Port au Basque Ferry and Terminals—deficit.

7. Vote 476—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the Act.

Your Committee held ten meetings, during which the above-named matters were considered and evidence adduced thereon.

The Annual Reports of the Canadian National Railways for 1952 disclose a net income of \$24,305,448.00, as compared with \$31,783,119.00 in 1951. However, interest charges amounted to \$24,163,121.00 in 1952, as compared with \$46,815,115.00 in 1951 bringing about a surplus of \$142,327.00 as compared with a deficit of \$15,031,996.00 in 1951. The said Annual Report was adopted.

The Annual Reports of the Canadian National (West Indies) Steamships, Limited for 1952 disclose a net operating profit of \$326,276.00 as compared with a net operating deficit of \$31,576.00 for 1951. After inclusion of Vessel Replacement Fund earnings of \$145,065.00 and payment of interest on bonds held by the public and on Government advances, there was an income deficit of \$3,909.00 compared with an income deficit of \$468,992.00 in 1951. The balance in the Vessel Replacement Fund at the end of the 1952 was \$5,018,229.00 as compared with \$4,685,357.00 at the year end in 1951. The Insurance Fund balance was \$2,354,572.00 against a balance of \$2,046,654.00 at the end of 1951. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1952 discloses a net operating revenue of \$2,757,879.00, and that after payment of interest amounting to \$750,000.00 on capital invested and making provision for income tax of \$1,200,000.00, there is a resulting surplus of \$807,879.00 as compared with a surplus of \$3,890,957.00 in the year 1951, during which year no income tax with respect to this company was payable. The said Annual Report was adopted.

The Auditors' Report to Parliament with respect to the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1952, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, for the calendar year 1953 were examined and adopted.

The items of the Estimates for the year ending March 31, 1954, being votes 467, 471 and 476, were considered and approved.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., L.L.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, and Mr. T. J. Gracey, Comptroller, both of the Canadian National Railways; and Mr. G. R. McGregor, President of the Trans-Canada Airlines, and Mr. W. S. Harvey, Comptroller.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 18, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10:30 o'clock a.m. this day.

Members present: Messrs. Benidickson, Bourget, Browne (*St. John's West*), Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Thomas.

A quorum having assembled, Mr. Macdonnell (*Greenwood*) addressing himself to the Clerk, moved that Mr. Cleaver, be Chairman of the Committee.

And the question being put on the said motion; it was agreed to.

Mr. Cleaver presiding:

On motion of Mr. Macdonald (*Edmonton East*):

Resolved,—That Mr. McCulloch be Vice-Chairman of the Committee.

On motion of Mr. McCulloch:

Resolved,—That the Committee recommend to the House that it be granted permission to sit while the House is sitting.

On motion of Mr. Benidickson:

Resolved,—That the Committee recommend to the House that its quorum be reduced from fourteen to eight members.

On motion of Mr. Macdonnell (*Greenwood*):

Resolved,—That the Committee recommend to the House that it be empowered to print, from day to day, 1000 copies in English and 200 copies in French of its minutes of proceedings and evidence.

At 1.45 o'clock p.m., on motion of Mr. Fulton, the Committee adjourned to meet again at 11:00 o'clock a.m., Monday, March 23rd, 1953.

MONDAY, March 23, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11:00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Follwell, Fulton, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railway, assisted by Mr. T. J. Gracey, Comptroller, and Mr. S. F. Dingle, Vice-President (Operations); and Messrs. F. P. Turville, J. D. Morison, and D. T. G. Padley, Chartered Accountants, of George A. Touche & Company, Accountants.

The Committee commenced consideration of the Annual Report of the Canadian National Railway (1952).

Mr. Gordon was called, read the letter of transmittal and the Annual Report.

The Committee then commenced a detailed examination of the Report, during which Mr. Gordon, assisted by Messrs. Gracey and Dingle, answered questions directed to him.

At 12:50 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 3:30 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 3:30 o'clock p.m. Mr. Cleaver, Chairman, presiding.

Members present: Messrs. Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Follwell, Fulton, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as at morning session.

The Committee resumed the examination of Mr. Gordon.

At 5:35 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 8:30 o'clock p.m. this day.

EVENING SESSION

The Committee resumed at 8:30 o'clock p.m. Mr. Cleaver, Chairman, presiding.

Members present: Messrs. Browne (*St. John's West*), Carter, Chevrier, Churchill, Dumas, Follwell, Fulton, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as at morning session.

The Committee resumed the examination of Mr. Gordon.

On Section 34 of the Annual Report, *Hotel Operations*, Mr. Macdonnell (*Greenwood*), moved "for a copy of all letters, telegrams, and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then Manager of the Fort Garry Hotel in Winnipeg concerning complaints as to allotment of rooms to Federal Ministers of the Crown in the said hotel, or as to the conduct of Robert Pitt in his discharge of his duties, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints since the first day of September, 1952, and to date".

At the same time, and with the consent of the Committee, Mr. Macdonnell (*Greenwood*) also moved: "That Mr. Pitt and Mr. R. Sommerville, General Manager of Hotels, be called before the Committee".

After some discussion and the question being raised as to whether the documents requested could be produced, the Chairman ruled that further discussion should be directed to the point of order.

Thereupon, Mr. Gillis moved that, before proceeding further with the motion for production of papers, Mr. Gordon be heard on the motion.

After further discussion, and with the unanimous consent of the Committee, the Chairman called Mr. Gordon to make a statement on the production of the documents and papers requested in the motion.

Thereupon the Chairman ruled that the production of the documents and papers requested was contrary to well established principles and could not be allowed.

And an appeal from the Chairman's ruling being taken by Mr. Macdonnell. Mr. Mutch moved that the Committee adjourn until 11:00 o'clock a.m. Tuesday, March 24, 1953.

The debate still continuing the Chairman ruled that the motion to adjourn was not debatable and the said motion having been put, was agreed to.

At 10:00 o'clock p.m. the Committee adjourned to meet again at 11:00 o'clock a.m., Tuesday, March 24, 1953.

TUESDAY, March 24, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mutch, Pouliot.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railway, assisted by Mr. T. J. Gracey, Comptroller, and Mr. S. F. Dingle, Vice-President (Operations): and Messrs. F. P. Turville, J. D. Morison, and T. D. G. Padley, chartered accountants, of George A. Touche & Company, accountants.

The Committee resumed consideration of the Annual Report of the Canadian National Railway.

The Chairman informed the Committee that the ruling he had made at the previous meeting as to the production of certain documents was not debatable.

Thereupon, a recorded vote being requested, the Chairman's ruling was sustained on the following division:

Yeas: Messrs. Benidickson, Carter, Cavers, Chevrier, Dumas, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), McCulloch, Mott, Mutch, Pouliot. (15).

Nays: Messrs. Browne (*St. John's West*), Churchill, Fulton, Knight, Macdonnell (*Greenwood*), McLure. (6).

Debate then took place on the motion of Mr. Macdonnell (*Greenwood*) that "Mr. Pitt and Mr. R. Sommerville, General Manager of Hotels, be called before the Committee".

On speaking to the motion Mr. Macdonnell (*Greenwood*), informed the Committee that he had certain letters in his possession and it was his intention to read them into the record;

And a point of order being raised as to whether or not the said letters were interdepartmental documents and, if so, having regard to the decision of the Committee on the matter of producing interdepartmental correspondence,

whether or not they could be placed on the record; the Chairman advised the Committee that he would take the matter into consideration and give a decision at the afternoon session.

At 12.55 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 3.30 o'clock a.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Chevrier, Churchill, Dumas, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as at the morning session.

Debate was resumed on the point of order raised at the morning sitting as to whether or not it was permissible for Mr. Macdonnell (*Greenwood*), to place on the record certain letters in his possession.

After some discussion the Chairman ruled that the said letters were inter-departmental documents and that, having regard to the previous decision of the committee as to the production of such documents, they could not be incorporated into the record.

The Committee then resumed consideration of Mr. Macdonnell's motion that Mr. Pitt and Mr. Sommerville be called before the Committee.

After further discussion; the question having been put and a recorded vote being requested the motion was negatived on the following division:

Nays: Messrs. Benidickson, Carter, Chevrier, Dumas, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), McCulloch, Mott, Mutch, Pouliot, Thomas. (15).

Yeas: Messrs. Browne (*St. John's West*), Churchill, Fraser, Fulton, Macdonnell (*Greenwood*), McLure. (6).

The Committee resumed the detailed study of the Annual Report of the Canadian National Railway and the examination of Mr. Gordon thereon.

At 6.05 o'clock p.m. the consideration of the Annual Report and the examination of Mr. Gordon thereon having been completed, the Committee adjourned to meet again at 8.30 o'clock p.m. this day:

EVENING SESSION

The Committee resumed at 8.30 o'clock p.m. Mr. Cleaver, Chairman, presiding.

Members present: Benidickson, Browne (*St. John's West*), Carter, Chevrier, Churchill, Dumas, Follwell, Fraser, Fulton, George, Gillis, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McLure, Mutch, Pouliot.

In attendance: Same as at the morning session.

The Committee having been advised of the passing of Her Majesty Queen Mary observed a minute's silence to mark its sorrow and regret at her passing.

The Committee commenced consideration of the Income Account and Capital Budget—1953, of the Canadian National Railways; Mr. Gordon being questioned thereon.

At 10.00 o'clock p.m. the examination of Mr. Gordon continuing, the Committee adjourned to meet again at 3.30 o'clock p.m., Wednesday, March 25, 1953.

R. J. GRATRIX,
Clerk of the Committee.

WEDNESDAY, March 25, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 3.30 o'clock p.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railway, assisted by Mr. T. J. Gracey, Comptroller, and Mr. S. F. Dingle, Vice-President (Operations); and Messrs. F. P. Turville, J. D. Morison, and T. D. G. Padley, chartered accountants, J. George A. Touche & Company, accountants.

The Committee completed consideration of and adopted the Income Account and Capital Budget, 1953, of the Canadian National Railways, Mr. Gordon being further examined thereon.

The Committee then considered and approved the Annual Report and the Income Account and Capital Budget, 1953 of the Canadian National (West Indies) Steamships, Limited, Mr. Gordon being examined thereon.

The Annual Report of the Canadian National Railways Securities Trust, 1952, was considered and adopted.

On motion of Mr. Gillis:

Resolved,—That in the future the Annual Reports of The Canadian National Railways Securities Trust be mimeographed rather than printed.

The Chairman placed before the Committee for consideration the Auditors' Report to Parliament, 1952, on the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited.

On motion of Mr. Fraser:

Resolved,—That the reading of the said reports be dispensed with.

The Auditors' Report to Parliament, 1952, in respect of the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, was approved.

The Committee then considered and approved the following items of the estimates referred to the Committee.

Vote 467—Prince Edward Island Car Ferry and Terminals—deficit;

Vote 471—North Sydney, N.S.—Port aux Basque Ferry and Terminals—deficit;

Vote 476—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the act.

Answers to questions asked by various members of the Committee during the proceedings and deferred for additional information, were given by Mr. Gordon.

The Committee having completed its inquiry into matters referred in respect of the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, the Chairman expressed the appreciation of the Committee to Mr. Gordon and his officials.

At 5.25 o'clock p.m. the Committee adjourned to meet again at 11 o'clock a.m., Thursday, March 26th, 1953.

R. J. GRATRIX,
Clerk of the Committee.

MARCH 27, 1953.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government met, in camera, at 10.30 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Churchill, Dumas, Follwell, Fraser, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, Mott, Mutch.

The Chairman submitted a draft report on all matters referred to the Committee.

After some discussion and several amendments being proposed the said report was adopted without amendment, *on division*.

At 11.05 o'clock a.m. the Committee adjourned sine die.

R. J. GRATRIX,
Clerk of the Committee.

NOTE: In answer to a question asked by Mr. Browne (*St. John's West*), the following statement entitled: "Average revenues per ton mile of Railways in Various Countries", was filed with the Clerk of the Committee and is appended hereto as Appendix "A".

EVIDENCE

MARCH 23, 1953.
11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. The committee is pleased to have Mr. Donald Gordon with us again. Mr. Gordon?

Mr. GORDON: Mr. Chairman and members of the committee, may I first state for the record that accompanying me today are Mr. S. F. Dingle, vice-president in charge of operations, and Mr. T. J. Gracey, comptroller and others of my staff, who are here with supporting data on matters of detail to ensure that as far as possible in my appearance before you I may be able to deal with all questions which may appropriately arise or be of interest to you.

Mr. Chairman, may I also ask your permission and the indulgence of the committee to suggest that I may be permitted to read the report in its entirety because it is intended to make a full disclosure of all pertinent information so that members may obtain a grasp of the over-all operation of an organization which if I may say so is of extraordinary complexity. Following the presentation of the annual report questions may be dealt with and I suggest members might make notes as we go through the report.

Mr. MACDONNELL: I notice that a year ago we read the report section by section. Now, if Mr. Gordon feels the other way is desirable I do not wish to raise an objection.

Mr. GORDON: The reason for my suggestion is I thought last year there arose as we went through the report quite a number of questions that were answered in later parts, and I thought it would be better if you had the whole report before you. I am in your hands. Where any member of the committee feels there is any special point he would like to stop at, I am in your hands.

The CHAIRMAN: Gentlemen, do you agree with Mr. Gordon's suggestion that he should read the entire report, and I will after that call a section at a time for questioning.

Agreed.

Mr. McLURE: I wish to say that I have always admired the design and the way in which the Canadian National Railways report is put out and this year I notice in the press several articles against the very expensive report. I do not agree. I would like to congratulate the designer of the set-up of it. I think his name is Mr. Lash.

Mr. GORDON: He is our director of public relations.

May I proceed first with the letter of transmittal on page 5 addressed to the minister?

CANADIAN NATIONAL RAILWAYS

MONTREAL, February 25, 1953.

DONALD GORDON,
Chairman and President.

The Honourable LIONEL CHEVRIER, Q.C., M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1952.

For reasons which appear in the text, the onminal surplus resulting from the year's operations cannot be regarded as adequate, or satisfactory. Nevertheless, the passage of the Canadian National Railways Capital Revision Act has dealt with the problem of excessive fixed interest charges which have hitherto obscured the real contribution made by Canadian National to the economic life of the country, and in consequence the more fundamental issues are thrown into sharper relief.

The Management is pleased to record its appreciation of the loyal and effective services rendered by officers and employees throughout the organization.

Yours truly,

D. Gordon.

REVIEW OF FINANCIAL RESULTS

1. The following statement is a summary of the Consolidated Income Account which appears on page 24:

	1952	1951	Per cent Change
Operating Revenues	\$675,219,415	\$624,834,120	8.1
Operating Expenses	634,852,915	580,150,221	9.4
Net Operating Revenue	\$ 40,366,500	\$ 44,683,899	9.7
Taxes, equipment rents and other income accounts .	16,061,052	12,900,780	
Available for interest and dividends	\$ 24,305,448	\$ 31,783,119	
Interest charges	24,163,121	46,815,115	
Income deficit		\$ 15,031,996	
Surplus	\$ 142,327		

If I may be permitted, I suggest the review of financial results shown in the figures be accepted as read?

Agreed.

2. Increased operating expenses due principally to high wage rates more than offset a gain of 8·1 per cent in operating revenues during 1952, and despite the attainment of a new record in the volume of freight traffic, net operating revenues declined by \$4·3 million compared with 1951. After taking account of the changes made by The Canadian National Railways Capital Revision Act, 1952 (described on page 13), which had the effect of bringing the ratio between fixed interest-bearing debt and equity capital to a basis more nearly comparable with that of other large railways, there emerged in the final outcome a very modest surplus to be paid as a dividend on Preferred Stock.

3. Even this small surplus was only made possible because of a non-recurring credit to operating expenses of \$3·1 million, and because of the fact that 1952 accounts were not charged with a retroactive wage settlement of \$4·5 million, granted to trainmen and firemen as from April 1, 1952, on which agreement was not reached until February, 1953, after the closing of 1952 accounts.

4. Allowing for these two factors, there would have been an income deficit of nearly \$7,500,000. Nevertheless, this deficit could also have been met had it been possible to obtain, within the year 1952, consequential increases in freight rates and other charges following a major wage settlement with non-operating employees signed in December and retroactive to September, 1952. Despite an emergency hearing and action by the Board of Transport Commissioners the Railway was faced once again with the impossibility of recovering its revenues on a retroactive basis to meet wage adjustments which reach back into the past.

5. In order to obtain a perspective of the 1952 results it is useful to make a comparison with 1928, the last year (apart from the war years 1941-45 inclusive) in which Canadian National reported an income surplus. Broadly speaking, the cost of railway materials and labour has moved forward in step with the general level of prices and wages during the intervening period, but railway freight rates have not. Over the past twenty-five years the average hourly earnings of Canadian railway employees have more than doubled, while the general price level as represented by the index of wholesale prices has shown an increase of over 80 per cent. In strong contrast to this pattern, the price of Canadian National freight services, as measured by the average revenue per ton mile, has risen by only 38 per cent. Freight revenues, it may be observed, generally account for at least three-quarters of gross System revenues.

6. In the face of this divergent trend of cost and rate levels, it is not surprising to find that the System ratio of operating expenses to operating revenue has worsened from 81·99 per cent in 1928 to 94·02 per cent in 1952. Indeed, were it not for a remarkable increase in efficiency of the Railway machine, having regard to the higher traffic levels, the financial results for 1952 would have been vastly different. The benefit of this over-all improvement in productivity amounts to many millions of dollars; all of this and more has been passed on to employees and the users of Railway services. It is represented on the one hand by increased compensation, and on the other by the lowest average level of freight rates to be found in any country in the Western world.

Mr. MACDONNELL: Does that include all countries?

Mr. GORDON: It includes all the countries with our standard of living and general outlook towards life.

7. The spread between the prices of Railway freight and passenger services, and the average prices of all other goods and services (which have a direct impact on rail expenses) has been particularly marked in the years following 1939, and for this reason the comparative price movements have been set out in chart form on page 10.

I think it might be useful if the committee took a glance at page ten when you will see on the lefthand side a chart showing how the gap between wholesale prices and the average price of freight service, the black line underneath, has widened steadily. The white line is the curve or chart of the wholesale prices and the black line shows the extent to which the revenue per ton mile has risen since 1939.

You will notice it starts at 1939 and it shows a 43 per cent increase.

Volume of Freight Traffic

8. The volume of freight traffic handled in 1952, as indicated by revenue net ton miles, exceeded by 5.5 per cent the record established in 1951. This measure of outputs is the product of the tonnage carried multiplied by the average distance over which the traffic moved. Revenue tonnage amounted to 90.1 million tons, an increase of negligible proportions, but with an increase in average haul from 407 to 427 miles the total output of ton miles rose to 38.4 billions.

9. Changes in the character of tonnage handled during 1952 had an adverse effect on the revenue yield of the record volume of traffic. Practically all of the commodities showing major increases were in the low-rated category, the heavy export grain movement being subject to the statutory Crowsnest Pass rates. Conversely, the majority of commodities moving in decreased volume, with the exception of pulpwood and bituminous coal, were in the higher-rated category.

10. Specifically, the increase in grain traffic amounted to nearly three million tons, or 25 per cent, this being due to the record harvest as well as unusually heavy movements throughout the year resulting from the large carry-over of stocks from the 1951 crop. Substantial increases were also recorded in gravel, sand, stone, and cement, reflecting a high level of activity in the construction industry. Heavier movements of crude and fuel oil, gasoline, machinery, and ores and concentrates, resulted from the steady rise in activity in the petroleum and mining industries.

11. The greatest decrease in tonnage occurred in pulpwood shipments, which declined by more than one million tons, or 15.2 per cent, as paper mills drew on stock piles accumulated throughout 1951 and early 1952. Other important decreases were shown in bituminous coal, lumber, wood pulp and paper products other than newsprint, as a consequence of market conditions. Restrictions imposed by the United States Government following the outbreak of foot and mouth disease in Saskatchewan were the major influence in a decline of 9.8 per cent in animal products. Steel shortages, leading to curtailed production, resulted in lower traffic in automobiles and parts on the subsidiary Grand Trunk Western lines. Other miscellaneous and manufactured commodities, together with less-carload tonnage, also showed decreases compared with 1951.

Freight Rates

12. The following are the more important freight rate changes authorized by the Board of Transport Commissioners during 1952:

1. Effective February 11, 1952, a 4.46 per cent increase brought about by substituting 17 per cent in place of the 12 per cent increase granted on July 4, 1951.

2. Effective May 1, 1952, the railways were required to apply, on traffic moving over the so-called "bridge" territory between Eastern and Western Canada, general reductions of 2.53 per cent on the basic rate and 5.8¢ per hundred pounds with certain exceptions. This Order was issued pursuant to legislation arising from recommendations of the Royal Commission on Transportation, as referred to in the last Annual Report. The railways are permitted to seek a compensatory subsidy from Government up to an aggregate amount of \$7 million per year for both major railways.

3. Effective May 2, 1952, an increase of 15 per cent on international and related traffic in lieu of an earlier increase ranging from 6 to 9 per cent which had been made effective on August 28, 1951. These Orders followed parallel action by the Interstate Commerce Commission in the United States.

4. Adjustments were authorized in Schedule "A" class rates in Eastern Canada, in export and import class rates between Eastern Canada and Atlantic seaboard ports, and in domestic grain rates applying within Western Canada.

5. Effective January 1, 1953, a general increase of 9 per cent with graduated increases of from 10 to 20¢ per ton on coal and coke. This award followed an application by the Railway Association of Canada for a 9 per cent increase calculated to recoup, in respect of employees engaged in freight and passenger services only, the additional cost arising from the wage settlement with the non-operating group effective September 1st. It was stated that the applicants would give further consideration to such increases in rates and tolls for other services as might be practicable with a view to recovering the balance of the additional wage expense.

13. In all of the foregoing awards no charge was made in the statutory Crowsnest Pass rates on grain and grain products.

14. The net result of the foregoing changes in rates effected in 1952, and changes in the composition of freight traffic as described in the preceding section, was a modest increase in the average revenue per ton mile for the System. In 1952 the unit revenue amounted to 1.397¢ compared with 1.369¢ in 1951.

15. At the time of writing this Report there was pending a decision by the Board on an application by the Railway Association of Canada for a general increase of 7% with graduated increases of 10 to 20¢ per ton on coal and coke.

16. Studies under the General Freight Rates Investigation, directed by Order-in-Council P.C. 1487 of April 7, 1948, were continued during the year with a particular emphasis on rate equalization. On December 12th the Board issued a Judgment specifying a uniform scale of mileage class rates for application between points west of Levis, Diamond and Boundary, Que., and tentatively set January 1, 1954, as the effective date. The Board's stated purpose in specifying this scale was to provide something concrete to be examined during public hearings which will be held in various parts of Canada during 1953 on the general subject of equalization, which involves, among other things, consideration of the revisions to be made in the Canadian Freight Classification.

Passenger Traffic

17. Various fare adjustments and increased patronage combined to raise passenger revenues by 2.1% to \$48,466,128. Heavier military travel more than offset the decline in immigrant traffic which occurred in the latter half of the year. The total number of passengers increased by 8.7% to 18,832,815, but since the average journey declined markedly, the total passenger miles rose by less than 2%.

18. Moderate increases in certain minimum and competitive fares, together with higher minimum charges for sleeping and parlor car accommodation, were put into effect during the year.

Express Traffic

19. Increased rates accompanied by a record-breaking number of express shipments accounted for an increase of nearly 17% in express revenues compared with 1951.

20. The increased charges were applied principally to special commodity tariffs and to the standard rates on small shipments of less than one hundred pounds. The number of express shipments handled during the year amounted to 24,548,248, showing an increase of nearly 6% above the previous record established in 1951.

Communications Traffic

21. Communications revenues rose by 15.3% to a new peak during 1952, as the result of higher message rates and a substantial increase in the volume of private leased wire business. Increased rentals for teletypes and associated equipment contributed in lesser degree to the higher level of earnings.

22. Following the wage settlement with the non-operating group, in which Communications Department employees were included, tariffs were filed with the Board of Transport Commissioners increasing message rates by an average of 10.9%. These tariffs were approved to take effect on February 1, 1953.

Operating Expenses

23. Increased wage rates constituted the major factor in raising the 1952 level of operating expenses to an all-time high. Higher prices for materials, increased pension cost, and other expenses related to the additional traffic volume also contributed to a total increase in expenses of 9.4% over the previous year.

24. A non-recurring credit to maintenance expenses of \$3.1 million resulted from the closing out of a reserve for amortization of defence projects which had been accrued during the war years in the expectation that certain capital projects initiated to meet defence requirements would be a burden on the System during normal peacetime conditions. Post-war events have so altered the circumstances that the reserve is no longer necessary.

Employee Compensation

25. Compared to 1951 the additional pay roll costs arising from higher wage rates amounted to \$22.3 million. Of this amount \$8.4 million was attributable to the impact throughout a full year of the forty-hour week, with maintenance of take-home pay, introduced on June 1, 1951, as part of an earlier settlement with non-operating employees.

26. The major wage settlement made during 1952 emerged from negotiations conducted with a committee appointed by seventeen railway unions representative of the non-operating employees, whose two-year contracts expired on September 1st. Based on the award of a Conciliation Board under the chairmanship of Mr. Justice R. L. Kellock, the final agreement, dated Decem-

ber 19th, provided for an increase of 7% and 7¢ per hour (averaging 12.4% overall) retroactive to September 1st, and an arrangement for the check-off of union dues. The cost of this settlement for 1952 amounted to \$9,657,000. On an annual basis the estimated cost will be \$29 million.

27. New agreements were signed with locomotive engineers and conductors, awarding wage increases ranging from 11% to 11½%. Other settlements made during 1952 affected smaller groups of employees covered by eight agreements.

28. As the year ended, two disputes, arising out of negotiations begun in February, 1952, with representatives of the trainmen and firemen, were under consideration by two separate Boards of Conciliation and Investigation.

29. On January 5, 1953, the Board dealing with the trainmen's case issued a majority report, which was accepted by the railways, recommending a 12% wage increase with certain changes in working rules. The rejection by the trainmen's organization of this report was coupled with a notice to the railways of intention to strike on February 2nd failing a settlement of the dispute. Negotiations were conducted in Montreal between January 19th and January 28th, and resumed in Ottawa at the direct request of the Prime Minister. On January 29th agreement in principle was reached, to be followed by further negotiations, on the basis of a 12% increase (later made retroactive to April 1, 1952) and a forty-hour week for yard service employees effective October 1, 1953.

30. A settlement with the firemen's organization was reached on February 10, 1953, providing for a 12% increase retroactive to April 1, 1952 and a further increase of 1% for yard service employees effective February 16, 1953.

31. On May 23rd the United States Government returned to ownership control all railways in the United States, including subsidiary lines of the Canadian National, which had been taken over under an Executive Order dated August 25, 1950, because of a threatened strike at that time by operating trades employees. Agreements subsequently made between the Carriers' Conference Committees and employee representatives brought the dispute to a final conclusion in May, 1952.

Prices

32. It is estimated that increased prices for railway materials added \$11.9 million to operating expenses in 1952. During the year the prices of a wide range of miscellaneous items declined, but the prices of such major items as ties and steel products continued to rise.

Taxes, Rents and other Income Accounts

33. The net debit arising from this group of accounts, as set forth on page 24, showed an increase of \$3.2 million compared to the previous year. This change is largely explained by the inclusion of \$4.5 million of non-recurring credits in the 1951 accounts; by a gain of \$1.8 million in United States and Sterling currency transactions due to a further appreciation of the Canadian dollar; and by an increase of nearly \$800,000 in municipal and other taxes.

Hotel Operations

34. Both gross revenues and expenses from the operation of nine Canadian National hotels and three summer resort lodges increased to record heights in 1952, producing a net result slightly less than in the preceding year.

35. Gross revenues amounted to \$9,291,444, reflecting an improvement in revenues at year-round hotels due to increased room and meal prices. Revenues from Jasper Park Lodge decreased by \$178,000 as a consequence of the destruction of the main building by a fire of undetermined origin on July 15th. Despite this disaster the Lodge was kept in operation by various expedients for the balance of the season, and with such success that total patronage for the year showed a decrease of only 25% compared with 1951. The number of guests accommodated at the year-round hotels declined slightly to 607,436.

36. Total operating expenses increased by 1.1% to \$8,755,935, due principally to selective wage increases effected locally at each hotel and summer resort.

37. Retirement accounting, in which the book values of assets are charged out to operating expense at the time the assets are taken out of service, is the procedure followed in respect of the Canadian National Hotel Department.

38. The net operating income from Hotel Department operations for the year amounted to \$535,509, compared to \$588,485 in the preceding year. The former amount would be reduced by \$279,270 if, in lieu of retirement accounting, straight line depreciation were applied on a current basis using a rate of 2%. Whether or not depreciation accounting should be introduced will be determined as part of a policy review of those accounting procedures which are most likely to give a realistic picture of operating results.

39. The net operating income cited above makes no allowance for the capital invested in hotel properties, which at January 1, 1952, stood at \$31.3 million. To recover 3.61% on this investment, as a minimum rate of return representing the average interest cost to the System during 1952 of borrowed capital, would require a net operating income of \$1,130,000.

Property Investment Account

40. As shown on page 30, expenditures during the year on additions and betterments, less the book value of property retired or transferred, amounted to \$124,956,219, of which \$81,428,578 represented net expenditures on equipment.

41. Major improvements to road property are dealt with under appropriate headings in the next section of this Report.

42. New construction and improvements in System hotels made good progress during 1952. At the year-end approximately 90% of the work was completed on the new wing of the Macdonald Hotel, Edmonton. At the Newfoundland Hotel, in St. John's, the ballroom, the main dining room, the new laundry wing, and two of the three bedroom sections were completed and in operation. Work was well in hand on a new fireproof central building for Jasper Park Lodge, planning having started immediately after the old building was destroyed, with the objective of having the Lodge in full operation for the start of the 1953 season.

46. As a consequence of these adjustments the proportion of total capitalization represented by equity capital in Shareholder's Account was raised from 34.5% to 67.2% at the beginning of 1952, and the proportion of borrowed capital was correspondingly reduced.

47. The provisions made for annual purchase of Preferred Stock by Government for a period of nine years up to and including 1960, and for the waiver during the ten-year period of interest on \$100 million of debt, contemplate that a review will be made at the appropriate time of the practical effects of the capital revision plan embodied in this Act.

Corporate Reorganization

48. During the year a plan was devised for the rationalization of the Canadian National corporate structure, which presently consists of 79 individual companies. The ultimate objective is the consolidation of as many as possible of these companies into perhaps ten major corporate entities.

Financing in 1952

49. Proceeds from the sale of preferred stock to Government in 1952 amounted to \$18,486,540. As shown on page 34, the net increase in borrowed capital, after debt retirements of \$9,702,206, amounted to \$97,164,590.

REVIEW OF OPERATIONS

Operating Performance

1. The most notable feature of the 1952 operations was the continued improvement in freight train performance resulting from the increased use of diesel locomotives, which accounted for nearly 23% of the gross ton miles produced during the year. Freight trains handled more tonnage per train than in any previous year at an average speed equal to the previously recorded peak, establishing a new high of 30,002 gross ton miles per freight train hour.

2. Other aspects of the year's performance are worthy of mention. The average on-time record of principal passenger trains was better than in any year since 1941. Utilization of diesel power was maintained at a high level. Utilization of steam power showed some decline, but no more than was anticipated because of its gradual displacement by diesel power and the relegation of steam engines to lighter traffic runs. Freight and passenger car utilization was maintained at a higher level than in 1951, despite the additional equipment acquired and the greater number of cars on line. In fact freight car utilization was better than in any year since 1945 when wartime carloading regulations were in effect and the longer average haul permitted better mileage per car to be obtained.

3. In order to present a consistent basis for comparison the foregoing figures exclude the Newfoundland District.

Equipment and Research

Motive Power

4. Plans for the selective introduction of diesel power were progressed during 1952 by placing in service 115 diesel locomotive units. As shown on page 38, this brought to 395 the total number of units on hand at the year end.

5. Regarded from the standpoint of service assignment, the five-year dieselization programme as projected through 1956 is made up of four component parts, covering the use of diesels in through freight, switching, way freight, and passenger operations. By the end of 1952 the programme for switchers was 20% complete, and the programme for road diesels (used in through freight service) was 34% complete. This pattern was based on the underlying principle that the type of diesel power acquired and its assignment in service, should be scheduled so as to yield the optimum return on investment. Studies have shown that, generally speaking, the greatest economies are derived from the initial stages of dieselizing through freight and switching operations, and for this reason the programme in respect of way freight and passenger service was not started in 1952.

6. Other technological developments in the motive power field continued to be watched during the year. Visits were made in the United States and Europe by technical officers of the Company to the scene of operations and research concerned with the gas turbine and the use of locomotives employing mechanical drive. While the results observed to date do not call for modification of present plans, the Management's long range policies do allow for the factor of obsolescence and leave scope for promising new developments in the field.

7. The conversion of 35 steam locomotives from coal to oil-burning was completed in 1952, thereby advancing a programme aimed at achieving the economies obtainable from using crude oil close to sources of supply in Western Canada.

Freight Equipment

8. The use of roller bearings on freight car equipment was introduced for the first time late in 1952 with the appearance in service of six 50-ton flat cars adapted for the rail movement of highway semi-trailers between Montreal and Toronto. This type of operation involves high speed movement under competitive conditions which place particular emphasis on regularity of service, and the schedules are such that it is possible to obtain a high degree of utilization of equipment. These are among the factors which combined to make a special case for the experimental use of roller bearings, despite the higher initial cost compared with standard journal bearings. Policy in respect of a wider application to freight equipment will depend on the results of analytical studies currently in hand.

Passenger Equipment

9. Both higher speeds and riding comfort are involved in considering the use of roller bearings on passenger-carrying cars. The decision has been taken to so equip all new passenger cars and all air-conditioned dining cars. The same policy applies to cars selected for modernization in Canadian National shops, thirty-six of which were completed in 1952.

10. A number of economy features were introduced into the specifications for new passenger equipment ordered in 1952. Four instead of six-wheel trucks have been adopted as standard for all new passenger-carrying cars; excellent riding qualities and the safety factor will be assured by the use of truck assemblies of a new design embodying the latest type of shock-absorbing gear. In addition, wherever practicable, specifications call for single instead of double vestibule cars, thereby making more passenger accommodation available in each car. Generally, in respect of layout and materials used, the new cars have been designed to provide for the most efficient use of space consistent with modern standards of comfort and convenience for the passenger.

11. Encouraging results have been obtained from the use in branch line service of a reconditioned and modernized diesel railcar and two matching trailers, and immediate plans are being made to rehabilitate five power units for use singly or in combination with one or two trailers.

12. Six new light-weight electric cars and twelve matching trailers for suburban operations through the Mount Royal Tunnel were delivered and placed in service during 1952.

Signalling and Track Equipment

13. The installation of Centralized Traffic Control was completed on the Holly Subdivision, a 35-mile single track line between double track main lines at Pontiac and Durand, Michigan.

14. On the Kashobowie Subdivision, which handles heavy traffic including iron ore, two signalling projects were begun during the year. Centralized Traffic Control is being installed on the 106-mile single track section between Atikokan and Conmee, Ont., and automatic block signals are being placed on the double track between Conmee and Port Arthur, a distance of 36 miles.

15. Work was continued during 1952 on a ten-year programme (1948-1957 inclusive) for providing automatic block signals on the 512 miles of main line from Jasper to Port Mann, the operating terminal for Vancouver. Installation was well advanced on the 26 miles between Ashcroft and Spence's Bridge, B.C., and brought to completion in February, 1953, at which time there was a total of 185 miles of automatic signals in service in this mountain territory.

16. Reflecting the accelerated trend towards mechanization of track maintenance following the introduction in June, 1951, of a forty-hour week, 303 power tools and machines were acquired during 1952. These units included 8 mobile multiple unit tie tampers, of which there are now 19 in service.

Communications

17. Despite continuing delays in the delivery of new equipment an increase of nearly 42% in carrier channel mileage was achieved during the year. Further progress was made in mechanizing the handling of commercial message traffic, and the modernization of equipment used in broadcasting service was practically completed at the year-end.

Other Research

Research activities were expanded during the year in connection with process and quality control of materials, and the development of Railway equipment.

A rust inhibitor to control brine corrosion was successfully developed and has been put into use in standard refrigerator cars.

Advances were made in the scientific control of laundering processes, the use of textiles, and both ferrous and non-ferrous metals. Research has also entered into the field of reclaiming materials, and substantial progress has been made in the reconditioning of lubricants and the salvage and reconditioning of car springs.

Experiments have been continued in the field of mechanical refrigeration in refrigerator car service, but as yet without conclusive results. The special type of self-contained air-conditioning, lighting and heating unit for passenger equipment developed in co-operation with an English engineering firm has advanced to the point where the equipment is now ready for installation in a passenger car. Tests will be conducted during 1953.

An experimental lightweight refrigerator car, using aluminum and plywood for weight reduction and monel metal for resistance to corrosion from brine, is under construction. This car will use a novel type of lightweight aluminum foil insulation and will be equipped with a circulating brine system designed to give uniform, controlled temperature throughout the car.

Another interesting research project has been the development of a specialized type of less-carload container for the transportation of fresh chilled fish and other similar products. This container operates on a novel principle, for which patents are being sought.

The serviceability of passenger and freight car equipment was well maintained during 1952.

The basic inventory position in respect of freight car equipment was improved by the net addition of 4,785 units, as detailed on page 38. Shortages continue to be experienced, however, in certain types of equipment, such as refrigerators, which are used intensively in seasonal traffic movements.

As explained in the previous Annual Report, steel shortages and defence priorities have stood in the way of substantial additions to passenger car inventory during recent years. In 1952 the total number of cars on hand actually declined because of the retirement of old equipment, including 39 wooden coaches, of which there are still 481 in service. However, large orders for new equipment were successfully placed during the year, and engineering details are well in hand so that production can be undertaken in 1953.

The condition of the roadbed, track and structure was improved as the result of work accomplished under the 1952 maintenance programme. In certain instances, however, the designed programme was not fulfilled because of supply conditions. This was particularly true of the rail-laying programme which contemplated the installation of 805 track miles of new rail; due to a persistent steel shortage and late deliveries, actual installation amounted to only 574 track miles. This is regarded as serious, and every effort will be made to remedy the situation as new rail becomes available in 1953.

Terminal Facilities

Further steps were taken during 1952 to alleviate the problem of congestion in yard and terminal facilities.

Studies of the traffic flow through strategic terminals were followed by revisions in the procedure of marshalling trains which have proved effective in expediting car movements.

At Mimico Yards in Toronto Terminals all major track extensions were completed, and work was begun on a yard inter-communication system.

Planning for the new hump yard to be constructed in the Cote de Liesse area in Montreal was advanced during the year, and a start was made on the acquisition of the necessary land. Concurrently, work proceeded in Turcot Yards on the rearrangement and extension of trackage required to handle the current volume of traffic.

At Bonaventure Freight Terminals the four-storey office building, an extension to the inbound shed, and the shed office building were completed, and a contract was awarded late in the year for the foundations of a new bonded shed. Work was progressed on a programme of extension and rearrangement of the tracks serving Bonaventure freight sheds.

The through extension of four stub tracks in Central Station, Montreal, was completed, and work on the extension of the sub-track area for express operations was continued.

The adjustment of locomotive repair shop facilities was proceeded with during the year in order to meet changing requirements which stem from the dieselization programme. At Moncton and Point St. Charles (Montreal) portions of the shop space formerly devoted to steam locomotive repairs were converted to provide for heavy maintenance work on diesel units. For lighter diesel maintenance an extension to the electric locomotive shop in Point St. Charles and a new diesel shop building at Fort Erie were started during the

year. Modifications were also begun to roundhouses at Transcona (Winnipeg), Neebing (Fort William) and Campbellton for the accommodation of diesel locomotives.

Important additions to the facilities for maintenance of rolling stock were made with the completion in 1952 of a new paint shop at Point St. Charles, and a new wheel shop at Edmonton which will supply Western Region requirements.

In order to provide for a planned increase in iron ore shipments from the Steep Rock area, work was begun late in 1952 on the construction of a 600-foot extension to the iron ore dock at Port Arthur. The new structure, estimated to cost \$3.2 million, will double the handling capacity of the present facilities, and is expected to be completed in 1954.

Coastal Steamship Services

Two new vessels of the "Bar Haven" type, each of 1,138 gross tons, were ordered during the year for the Newfoundland coastal services. One vessel will replace the S.S. *Glencoe*, now fifty-two years old, and the other will be assigned to the east coast run to improve the service currently being provided by two small motor ships. Delivery of the new vessels is scheduled for the summer and autumn of 1955.

Preparatory studies were undertaken during the year with a view to determining the most suitable type of vessel to replace the forty-two year-old S.S. *Prince Rupert* now operating in the Pacific coastal service between Vancouver, Prince Rupert and Alaskan ports.

GENERAL

Participation in Economic Development

The continuing expansion of the Canadian economy in 1952 provided further opportunities for demonstrating the vital role played by Canadian National in the industrial life of the nation.

At various centres across Canada 282 industrial spur tracks, totalling 68.1 miles in length, were constructed by the Railway during the year.

The technical advice of the Company's industrial development officers was sought during the year by a number of firms planning expansion of their operations. Inquiries were received from American British and European interests as well as from Canadian firms.

At Prince Rupert, work was commenced late in 1952 on the construction of a marine slip for handling rail carloads to and from barges being operated by the Alaska-British Columbia Transportation Company between Prince Rupert and Ketchikan, Alaska. As a preliminary phase of this project a temporary slip was completed in February, 1953, to permit the handling of through traffic required for the construction of a wood pulp plant being built at Wards Cove, near Ketchikan.

The conclusion of an agreement late in 1952 with the Burrard Inlet Tunnel and Bridge Company, providing for operations over the Second Narrows Bridge, and the completion of an arrangement for the taking over by Canadian National of National Harbours Board trackage on both sides of Burrard Inlet, has opened the way for the development of a new and large industrial area in North Vancouver.

New Branch Lines

By the end of the year 98 per cent of the right-of-way had been cleared for the 150-mile branch line which is being built from Sherridon to Lynn Lake, Man. Rail was laid to Mile 54.2, just north of the Churchill River where the three channels have been spanned by steel bridges. It is expected that the line will be ready for operation by the end of 1953.

Surveys were completed in 1952 for a new branch line of approximately 46 miles from Terrace to Kitimat, B.C., where a large scale aluminum reduction plant is being built. Contracts were awarded for clearing and grading operations and for the sub-structure of a bridge required to carry the line over the Skeena River. By the end of the year a start had been made on clearing the right-of-way. Present schedules anticipate completion of the line in 1954.

Economic developments in the Chibougamau area of Northern Quebec, in the Gaspé Peninsula, and in New Brunswick have been under observation with an eye to the possibility that further growth may warrant the provision of rail service.

St. Lawrence Seaway Project

Preparatory studies were continued during the year for the co-ordination of Canadian National facilities with the planned power development and navigation works of the St. Lawrence Seaway project.

Highway Competition

Two innovations in freight handling methods were made in 1952 with a view to providing better service on merchandise traffic, which is highly competitive as between road and rail carriers.

The "Highball Merchandise Service", inaugurated on Canadian lines in November, 1952, provides for the placarding of all less-carload merchandise cars with a distinctively coloured label which readily identifies this traffic for special attention. This method has resulted in a marked improvement in service and will continue to be used.

An experimental service using railway-owned truck trailers loaded on specially equipped flat cars was introduced on December 1st in merchandise freight service between Montreal and Toronto. In this operation the trailers can be loaded at the shipper's door, hauled by truck-tractors to special ramps for loading on rail flat cars, and on arrival at destination be delivered directly to the consignee. Improved service and reduced handling costs are the advantages offered by this technique, although its use will be limited to situations where the traffic movement in each direction is reasonably balanced. The results obtained during the trial period have been encouraging and further expansion is contemplated.

Co-operation Under the Canadian National-Canadian Pacific Act, 1933

Joint studies aimed at the achievement of co-operative economies, and concerned with subjects mentioned in the preceding Annual Report were continued during 1952.

Studies aimed at effecting a greater degree of standardization between Canadian National and Canadian Pacific in respect of rolling stock were advanced during the year, and a joint committee was formed to deal specifically with this matter which, although it does not come within the scope of the above mentioned Act, is concerned with co-operative economies.

Employee Relations

During the past few years it has become increasingly clear that, despite a generally harmonious background and tradition of good-will, the wage bargaining aspect of relations between the railways and representatives of the organized employees leaves something to be desired.

The Management believes that a condition of recurring crises is detrimental to the best interests of employer and employee alike, and highly undesirable from the standpoint of the general public. Accordingly we have commenced a broad survey and review of the attitudes, practices and procedures which have grown up on either side over the years. Our aim is to examine objectively and in the light of modern conditions the whole context of labour management relations, having particular regard to the mutual responsibilities which devolve upon officers of the Railway and of the unions.

During 1952 further attention was given to the development of systematic procedures for the selection, training and promotion of employees.

A more extensive programme of on-the-job training for employees in all departments is under preparation. Steady progress has been made during the year in training employees in the operation and maintenance of diesel locomotives, personnel displaced by the diminishing requirements of steam locomotive maintenance being given every reasonable opportunity to adapt themselves to the new skills required.

As in most other firms, the effect of depressed conditions in the 1930's, when promotional opportunities were rare, has become evident in the lack of a broad background and experience among those who would normally be considered eligible for promotion to senior positions. The problem is acute because of the vacancies created by the unusually large number of retirements that have occurred in the recent past and are anticipated in the next few years. To provide a means for the development of administrative and executive capacity, a six-week Staff Training Course has been planned for the summer of 1953. This initial undertaking will break new ground, and the results will be carefully watched with a view to determining future policy.

Unadjusted Debits—	
Prepayments.....	\$ 928,168
Discount on funded debt.....	3,045,818
Other unadjusted debts.....	4,722,950
	<hr/>
	8,696,936
	<hr/>
	\$2,768,014,560
	<hr/>

Contingent Liabilities—
Major contingent liabilities, as shown on
page 32.

\$2,768,014,560

Sterling and United States currencies converted at par of exchange.

NOTE.—The capital stock of the Canadian National Railway Company (other than the four percent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and are disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1952.

In our opinion, proper books of account have been kept by the System, and the consolidated balance sheet at the 31st December, 1952, and the relative consolidated income account for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the System. The capital structure of the Canadian National Railways has been revised in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

The total amount of the investments in fixed properties and equipment as brought into the System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for equipment has been applied from the 1st January, 1940, retirement accounting continuing in effect for fixed properties.

Subsequent to the year end, settlement has been reached with the Brotherhood of Railroad Firemen and agreement in principle has been reached with the Brotherhood of Railroad Trainmen, resulting in wage increases retroactive to the 1st April, 1952, which have not been given effect to in the accounts under review.

In our opinion, subject to the foregoing, the above considered balance sheet and the relative consolidated income account are properly drawn up so as to give a true and fair view of the state of the System's affairs at the 31st December, 1952, and of the consolidated income and expense for the year.

The transactions of the System that have come under our notice have, in our opinion, been within the powers of the System. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.
Chartered Accountants.

2nd March, 1953.

SESSIONAL COMMITTEE

CONSOLIDATED INCOME ACCOUNT

	1952	1951
Railway Operating Revenues—		
Freight.....	\$536,723,241	\$498,800,344
Passenger.....	48,466,128	47,475,661
Mail.....	7,907,232	7,311,445
Express department.....	35,820,500	30,670,031
Communications department.....	13,870,000	12,032,631
All other.....	32,432,314	28,544,008
Total operating revenues.....	\$675,219,415	\$624,834,120
Railway Operating Expenses—		
Maintenance of way and structures.....	\$121,363,896	\$111,560,852
Maintenance of equipment.....	145,533,632	135,319,782
Traffic.....	11,192,183	10,429,825
Transportation.....	316,482,722	291,366,944
Miscellaneous operations.....	6,422,539	6,262,293
General.....	33,857,943	25,210,525
Total operating expenses.....	\$634,852,915	\$580,150,221
Net Operating Revenue.....	\$ 40,366,500	\$ 44,683,899
Taxes and Rents—		
Railway tax accruals.....	\$ 13,921,243	\$ 11,573,914
Equipment rents—Net debit.....	6,529,937	7,172,396
Joint facility rents—Net debit.....	420,996	340,140
Total taxes and rents.....	\$ 20,872,176	\$ 19,086,450
Net Railway Operating Income.....	\$ 19,494,324	\$ 25,597,449
Other Income—		
Income from lease of road.....	\$ 46,808	\$ 51,499
Miscellaneous rent income.....	1,220,473	1,109,768
Income from non-transportation property.....	727,591	476,693
Results of separately operated properties.....	721,748	1,079,385
Hotel operating income.....	535,509	588,485
Dividend income.....	401,611	414,411
Interest income.....	1,785,817	2,242,019
Miscellaneous income.....	1,829,618	1,324,414
Total other income.....	\$ 7,269,175	\$ 7,286,674
Deductions from Income—		
Rent for leased roads.....	\$ 478,483	\$ 551,554
Miscellaneous rents.....	676,200	672,809
Interest on unfunded debt.....	269,805	236,287
Amortization of discount on funded debt.....	503,780	573,602
Miscellaneous income charges.....	384,639	488,825
Profit and loss—Net debit or credit.....	145,144	1,422,073
Total deductions from income.....	\$ 2,458,051	\$ 1,101,004
Net Income Available for Interest.....	\$ 24,305,448	\$ 31,783,119
Interest Charges—		
Interest on funded debt—Public.....	21,848,906	23,467,703
Interest on Government loans.....	2,314,215	23,347,412
Income deficit	—	\$ 15,031,996
Surplus—Payable as a Dividend on 4 per cent preferred stock.	\$ 142,327	—

NOTE:—No income tax payable on 1952 surplus.

OPERATING REVENUES

	1952	1951
Operating Revenues—		
Freight.....	\$528,128,689	\$490,290,463
Payments under Maritime Freight Rates Act.....	8,594,552	8,509,881
Passenger.....	48,466,128	47,475,661
Baggage.....	157,198	156,839
Sleeping Car.....	4,597,819	3,928,087
Parlor and chair car.....	403,390	367,699
Mail.....	7,907,232	7,311,445
Express department.....	35,820,500	30,670,031
Railway Express Agency.....	758,739	501,836
Other passenger-train.....	15,214	14,616
Milk.....	492,096	500,883
Switching.....	6,184,985	5,564,378
Water transfers.....	1,967,514	1,789,914
Dining and buffet.....	3,666,873	3,350,653
Restaurants.....	357,888	327,897
Station, train and boat privileges.....	454,682	425,966
Parcel room.....	75,194	71,299
Storage—Freight.....	395,825	414,115
Storage—Baggage.....	61,750	57,293
Demurrage.....	2,486,457	2,895,635
Communications department.....	13,870,000	12,032,631
Telegraph commissions (U.S.).....	11,348	9,800
Grain elevator.....	848,230	743,901
Rents of buildings and other property.....	1,075,822	949,665
Miscellaneous.....	7,612,099	5,664,923
Joint facility—Cr.....	938,115	934,178
Joint facility—Dr.....	128,924	125,569
	<u>\$675,219,415</u>	<u>\$624,834,120</u>

OPERATING EXPENSES

	1952	1951
Maintenance of Way and Structures—		
Superintendence.....	\$ 8,717,622	\$ 7,338,085
Roadway maintenance.....	12,787,967	12,634,015
Tunnels and subways.....	216,100	168,119
Bridges, trestles and culverts.....	5,149,770	4,468,840
Ties.....	11,592,753	9,850,138
Rails.....	5,858,134	6,834,178
Other track material.....	7,345,313	5,717,921
Ballast.....	2,303,047	2,092,985
Track laying and surfacing.....	31,874,310	27,983,529
Fences, snowsheds and signs.....	1,491,007	1,189,421
Station and office buildings.....	5,584,485	5,079,732
Roadway buildings.....	769,475	689,424
Water stations.....	957,370	977,005
Fuel stations.....	501,188	462,412
Shops and enginehouses.....	4,086,943	3,409,385
Grain elevators.....	84,543	80,008
Storage warehouses.....	1,734	3,508
Wharves and docks.....	297,636	274,819
Communications systems.....	6,886,864	6,074,769
Signals and interlockers.....	1,971,025	1,896,862
Power plants.....	25,556	29,125
Power-transmission systems.....	407,851	433,868
Miscellaneous structures.....	27,780	7,568
Road property—Depreciation—U.S. Lines.....	986,791	963,614
Road property—Retirements.....	3,480,979	2,202,655
Roadway machines.....	1,823,227	1,504,292
Dismantling retired road property.....	397,958	317,388
Amortization of defence projects—Cr.....	3,051,276	
Small tools and supplies.....	1,999,679	1,948,665
Removing snow, ice and sand.....	5,273,551	5,519,522
Public improvements.....	812,221	778,943
Injuries to persons.....	958,437	889,531
Insurance.....	228,586	268,557
Stationery and printing.....	157,056	139,304
Other expenses.....	61,222	9,509
Right-of-way expenses.....	96,702	84,670
Maintaining joint facilities—Dr.....	1,593,678	1,569,370
Maintaining joint facilities—Cr.....	2,393,388	2,330,884
	<u>\$121,363,896</u>	<u>\$111,560,852</u>

OPERATING EXPENSES—*Continued*

	1952	1951
Maintenance of Equipment		
Superintendence.....	\$ 3,171,373	\$ 2,913,755
Shop machinery—Repairs.....	4,422,577	4,150,423
Power-plant machinery—Repairs.....	316,686	238,399
Machinery—Retirements.....	163,380	162,897
Machinery—Depreciation—U.S. Lines.....	77,304	76,431
Dismantling retired machinery.....	13,812	5,862
Steam locomotives—Repairs.....	38,953,152	37,714,654
Other locomotives—Repairs.....	3,835,699	2,253,476
Freight-train cars—Repairs.....	45,442,568	40,774,805
Passenger-train cars—Repairs.....	17,460,733	17,482,277
Floating equipment—Repairs.....	1,659,419	1,746,731
Work equipment—Repairs.....	4,173,588	4,085,473
Express department equipment—Repairs.....	439,349	367,387
Miscellaneous equipment—Repairs.....	288,160	255,375
Miscellaneous equipment—Retirements.....	12,444	21,421
Dismantling retired equipment.....	330,009	259,987
Equipment—Depreciation.....	23,215,889	21,288,394
Express department equipment—Depreciation.....	210,036	181,872
Injuries to persons.....	767,755	785,076
Insurance.....	335,459	354,277
Stationery and printing.....	123,182	117,896
Other expenses.....	124,827	40,263
Joint maintenance of equipment— <i>Dr.</i>	405,759	362,187
Joint maintenance of equipment— <i>Cr.</i>	409,528	319,536
	<hr/> \$145,533,632	<hr/> \$135,319,782
Traffic—		
Superintendence.....	\$ 3,910,479	\$ 3,546,503
Outside agencies.....	4,325,671	4,179,503
Advertising.....	1,416,590	1,317,215
Traffic associations.....	229,940	188,095
Stationery and printing.....	642,480	593,347
Industrial and development.....	374,185	341,289
Colonization and agriculture.....	292,838	263,873
	<hr/> \$ 11,192,183	<hr/> \$ 10,429,825
Transportation—		
Superintendence.....	\$ 6,923,970	\$ 6,549,007
Dispatching trains.....	3,897,405	3,493,374
Station employees.....	42,961,957	39,578,843
Weighing, inspection and demurrage bureaus.....	174,118	157,563
Coal and ore wharves.....	96,294	118,626
Station supplies and expenses.....	3,203,721	2,990,517
Yardmasters and yard clerks.....	9,275,363	8,325,456
Yard conductors and brakemen.....	15,635,247	15,414,304
Yard switch and signal tenders.....	1,589,480	1,466,736
Yard enginemen.....	11,047,299	10,711,642
Yard switching fuel.....	8,193,471	8,510,271
Yard switching power produced.....	33,720	31,830
Yard switching power purchased.....	102,501	116,286
Water for yard locomotives.....	213,177	206,395
Lubricants for yard locomotives.....	197,723	165,803
Other supplies for yard locomotives.....	142,065	119,402
Enginehouse expenses—Yard.....	3,707,789	3,375,084
Yard supplies and expenses.....	385,853	359,161
Train enginemen.....	26,637,714	25,253,936
Train fuel.....	54,036,313	50,826,078
Train power produced.....	54,815	21,173
Train power purchased.....	162,680	106,497
Water for train locomotives.....	1,977,854	1,818,073
Lubricants for train locomotives.....	1,172,206	979,688
Other supplies for train locomotives.....	721,138	649,806
Enginehouse expenses—Train.....	12,066,976	10,654,393
Trainmen.....	31,142,582	29,923,881
Train supplies and expenses.....	21,592,551	18,589,919
Operating sleeping cars.....	3,854,130	3,056,299
Signal and interlocker operation.....	1,043,087	852,812
	<hr/> \$262,243,199	<hr/> \$244,422,855
Carried forward		

OPERATING EXPENSES—Continued

	1952	1951
Transportation—Continued		
Brought forward	\$262,243,199	\$244,422,855
Crossing protection.....	1,515,443	1,423,771
Drawbridge operation.....	293,255	262,241
Communication system operation.....	11,524,650	10,294,736
Operating floating equipment.....	6,154,397	4,889,208
Express department operation.....	2,238,894	19,789,936
Stationery and printing.....	1,387,759	1,250,521
Other expenses.....	2,361,586	2,071,450
Insurance.....	249,907	287,882
Clearing wrecks.....	1,059,478	1,014,577
Damage to property.....	208,246	181,640
Damage to live stock on right-of-way.....	94,957	80,634
Loss and damage—Freight.....	3,345,975	2,824,906
Loss and damage—Baggage.....	10,145	9,059
Injuries to persons.....	2,247,474	1,963,296
Operating joint yards and terminals—Dr.....	2,699,932	2,528,986
Operating joint yards and terminals—Cr.....	2,850,912	2,749,796
Operating joint tracks and facilities—Dr.....	1,439,024	1,513,750
Operating joint tracks and facilities—Cr.....	740,687	692,708
	<u>\$316,482,722</u>	<u>\$291,366,944</u>

Miscellaneous Operations—

Dining and buffet service.....	\$ 4,855,377	\$ 4,816,640
Restaurants.....	341,740	335,446
Grain elevators.....	365,053	307,783
Other miscellaneous operations.....	462,830	417,007
Operating joint miscellaneous facilities—Dr.....	397,539	385,417
	<u>\$ 6,422,539</u>	<u>\$ 6,262,293</u>

General—

Salaries and expenses of general officers.....	\$ 762,118	\$ 801,809
Salaries and expenses of clerks and attendants.....	10,806,672	9,912,021
General office supplies and expenses.....	741,378	697,483
Law expenses.....	614,191	548,465
Relief department expenses.....	42,500	42,500
Pensions.....	19,716,514	12,320,390
Stationery and printing.....	553,005	465,903
Valuation expenses.....	11,250	10,398
Other expenses.....	501,234	308,574
General joint facilities—Dr.....	124,837	118,165
General joint facilities—Cr.....	15,756	15,183
	<u>\$ 33,857,943</u>	<u>\$ 25,210,525</u>

OPERATING EXPENSES AND TOTAL PAYROLL

	1939	1951	1952
Operating Expenses—			
Total expenses—thousands.....	\$182,965	\$580,150	\$634,853
Percent of total revenue.....	89.77	92.85	94.02
Distribution of operating expense dollar:—	¢	¢	¢
Labour.....	61.48	60.44	59.75
Materials.....	29.58	29.91	29.87
Other expenses.....	8.94	9.65	10.38
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
Payroll—			
(Excluding hotel and subsidiary company employees)			
Average number of employees.....	78,129	121,199	127,930
Total payroll—thousands.....	\$122,354	\$381,654	\$405,541
Average earnings per employee.....	\$ 1,566	\$ 3,149	\$ 3,170

PROPERTY INVESTMENT ACCOUNT

EXPENDITURES YEAR 1952

Road—

New lines constructed.....	\$ 6,810,411	
Montreal terminal development.....	2,425,319	
Abandoned lines— <i>Credit</i>	1,415,470	
Rails and fastenings.....	2,118,149	
Tie plates and rail anchors.....	3,261,493	
Ballast.....	607,052	
Large freight terminals.....	3,924,664	
Yard tracks and sidings.....	2,691,013	
Roadway machines.....	1,540,742	
Bridges, trestles and culverts.....	1,581,672	
Tunnels.....	182,846	
Crossing protection.....	473,981	
Stations and station facilities.....	2,740,704	
Water supplies.....	120,405	
Shops, enginehouses and machinery.....	4,157,748	
Automatic signals and interlocking plants.....	1,570,208	
Communications department.....	6,368,604	
Stores department buildings and equipment.....	185,879	
General.....	995,565	\$ 40,340,985

Equipment—

Equipment purchased or built.....	\$ 82,025,662	
Equipment retirements— <i>Credit</i>	7,128,668	
General betterments to equipment.....	5,015,239	
Equipment conversions.....	981,506	
Express and miscellaneous equipment.....	534,839	81,428,578

Hotels..... 3,102,810

Separately Operated Properties..... 369,116

Net expenditures..... \$125,151,489

Capital investment of Government of Canada in the Canadian Government Railways—

Transfer of property—*Credit*..... 195,270

Net increase in property investment account..... \$124,956,219

Total property investment account at 31st. December, 1952, \$2,436,837,772.

GOVERNMENT OF CANADA LOANS AND DEBENTURES

PRINCIPAL AND INTEREST

	Principal outstanding at 31st Dec. 1952	Interest accrued 1952
Liability January 1, 1952, after adjustments under Capital Revision Act, 1952:—		
Debenture issued under Capital Revision Act, 1952, maturing January 1, 1972.....	\$100,000,000	—
Advances for Canadian Government Railways Working Capital 1923....	16,771,981	—
3½% loan Financing & Guarantee Act, 1951.....	4,416,388	\$ 165,614
	\$121,188,369	
Subsequent transactions:—		
Financing & Guarantee Acts—		
3½% loans—Act, 1951.....	17,333,940	578,758
3½% loans—Act (No. 2), 1951.....	3,225,924	94,010
3½% loans—Act, 1952.....	33,277,000	782,522
3½% debenture, maturing Sept. 19, 1967—Act, 1952.....	40,750,000	449,925
Refunding Acts—		
3½% loans—Act, 1947.....	2,506,623	73,847
3½% loans—Act, 1951.....	9,773,309	169,539
	\$228,055,165	\$2,314,215

FUNDED DEBT—PRINCIPAL AND INTEREST

Guaranteed by Government of Canada—

Rate %	Maturity (See note)		Year issued and currency in which payable	Principal outstanding at 31st Dec., 1952	Interest accrued 1952
5	Perpetual	G.T.R. Debenture Stock.....	1875 Sterling.....	\$ 1,016,092	\$ 50,804
5	Perpetual	G.W. Debenture Stock.....	1858 Sterling	499,709	24,985
4	Perpetual	G.T.R. Debenture Stock.....	1883 Sterling	5,446,491	217,860
4	Perpetual	Nor. Ry. Debenture Stock....	1884 Sterling	22,591	904
3	July 10, 1953	Can. Nor. 1st Mtge. Deb. Stock	1903 Sterling	1,162,768	34,883
3½	July 20, 1958	Can. Nor. 1st Mtge. Deb. Stock	1910 Canadian	5,246,268	183,620
			Sterling	390,239	13,658
3½	May 4, 1960	C.N.A. 1st Mtge. Deb. Stock..	1911 Sterling	550,727	19,275
3½	May 19, 1961	C.N.O. 1st Mtge. Deb. Stock..	1911 Sterling	3,597,518	125,913
3	Jan. 1, 1962	G.T.P. 1st Mtge. Bonds.....	1905 Can-US-Stlg.	26,465,130	793,954
4	Jan. 1, 1962	G.T.P. Sterling Bonds.....	1914 Can-US-Stlg.	7,999,074	319,963

Canadian National Issues:—

5	Feb. 1, 1954	30 Year Guaranteed Bonds....	1924 Canadian	50,000,000	2,500,000
4½	June 15, 1955	25 Year Guaranteed Bonds....	1930 Can.-US-Stlg.	48,496,000	2,303,560
4½	Feb. 1, 1956	25 Year Guaranteed Bonds....	1931 Can.-US-Stlg.	67,368,000	3,031,560
4½	July 1, 1957	30 Year Guaranteed Bonds....	1927 Can-US.	64,136,000	2,886,120
3	Jan. 15, 1959 (a)	20 Year Guaranteed Bonds....	1939 Canadian	35,000,000	1,050,000
3	Jan. 3, 1966 (b)	17 Year Guaranteed Bonds....	1949 Canadian	35,000,000	1,050,000
2½	Jan. 2, 1967 (c)	20 Year Guaranteed Bonds....	1947 Canadian	50,000,000	1,375,000
2½	Sept. 15, 1969 (a)	20 Year Guaranteed Bonds....	1949 Canadian	70,000,000	2,012,500
2½	Jan. 16, 1971 (e)	21 Year Guaranteed Bonds....	1950 Canadian	40,000,000	1,150,000
2½	June 15, 1975 (f)	25 Year Guaranteed Bonds....	1950 U.S.	6,000,000	165,000
Total.....				\$518,396,607	\$ 19,309,559

Canadian National Serial Equipment Obligations

2½	Sept. 15, 1953	Trust Series "P".....	1938 Canadian	\$ 600,000	\$ 26,239
2	Dec. 1, 1957	Trust Series "R".....	1947 Canadian	2,800,000	66,267
2½	Mar. 15, 1958	Trust Series "S".....	1948 Canadian	16,800,000	369,396
2½	Nov. 1, 1958	Trust Series "T".....	1948 Canadian	12,900,000	318,469
2½	Mar. 15, 1960	Trust Series "U".....	1950 Canadian	16,500,000	393,937
2½	Jan. 15, 1961	Trust Series "V".....	1951 Canadian	11,475,000	326,391
Total.....				\$ 61,075,000	\$ 1,500,699

Other Issues

4	Perpetual	Can. Nor. Cons. Debent. Stk.	1903 Sterling	\$ 3,992,930	\$ 159,717
4	Perpetual	C.N.O. Cons. Debenture Stock	1909 Sterling	889,597	35,584
4	Perpetual	C.N.O. Guar. Debent. Stock.	1906 Sterling	465,545	18,622
4	Perpetual	Q. & L. St. J. 1st Mtge. Deb. Stock.....	1912 Sterling	285,342	11,414
4	Jan. 1, 1955	Can. Atlantic 1st Mtge. Bonds	1905 Can-US-Stlg.	9,947,934	397,918
4	Apr. 1, 1955	G.T.P. 2nd Mtge. Bonds, Prairie "A".....	1905 Can-US-Stlg.	3,574,530	142,981
4	Apr. 1, 1955	G.T.P. 2nd Mtge. Bonds, Mountain "B".....	1905 Can-US-Stlg.	3,144,906	125,796
4	Apr. 1, 1955	G.T.P. 1st Mtge. Bonds, "Lake Superior".....	1905 Can-US-Stlg.	2,152,008	86,080
4	Sept. 1, 1956	Pembroke Southern 1st Mtge. Bonds.....	1906 Canadian	150,000	6,000
2½	Mar. 1, 1957 (g)	Nfld. Ry. Reg'd. Instalment Notes.....	1941 U.S.	640,407	17,535
5	Nov. 15, 1958	Can. Nat. Indebt. to Prov. of N.B.....	1929 Canadian	380,023	19,001
4½	Jan. 1, 1980	G.T.W. 1st Mtge. Series "A" Bonds.....	1930 Can-US-Stlg.	400,000	18,000
Total.....				\$ 26,023,222	\$ 1,038,648
Grand Total.....				\$605,494,829	\$ 21,848,906

Note:—(a) Callable at par on or after Jan. 15, 1954.

(b) Callable at par on or after Jan. 3, 1961.

(c) Callable at par on or after Jan. 2, 1964.

(d) Callable at par on or after Sept. 15, 1964.

(e) Callable at par on or after Jan. 16, 1966.

(f) Callable on or before June 14, 1954, at 102½; thereafter at varying redemption premiums.

(g) Callable at par at any time.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Par value outstanding		Book value	
	Total	Can. Nat. System percentage	Can. Nat. System holdings	
Stocks—				
The Belt Railway Company of Chicago....	\$ 3,120,000	7.69	\$ 240,000	
Canadian Government Merchant Marine, Limited.....	800	100	800	
Chicago & Western Indiana Railroad Company.....	5,000,000	20	1,000,000	
The Detroit & Toledo Shore Line Railroad Company.....	3,000,000	50	1,500,000	
Detroit Terminal Railroad Company.....	2,000,000	50	1,000,000	
Northern Alberta Railways Company.....	12,500,000	50	6,250,000	
The Public Markets, Limited.....	1,150,000	50	575,000	
Railway Express Agency, Incorporated (no par value).....	1,000 shares	0.6	600	
Shawinigan Falls Terminal Railway Company.....	300,000	50	62,500	
The Toronto Terminals Railway Company..	500,000	50	250,000	
The Toledo Terminal Railroad Company..	4,000,000	9.58	387,200	
Trans-Canada Air Lines.....	25,000,000	100	25,000,000	
Vancouver Hotel Company Limited.....	150,000	50	75,000	
				\$ 36,341,100
Bonds—				
Northern Alberta Railways Co. 1st Mortgage Bonds.....	\$ 23,155,000	50	\$11,577,500	
The Toronto Terminals Railway Co. 1st Mortgage Bonds.....	25,610,000	50	12,805,000	
				24,382,500
Advances—				
The Belt Railway Company of Chicago.....			\$ 25,544	
Chicago & Western Indiana Railroad Company.....			3,671,460	
Northern Alberta Railways Company.....			150,000	
Railway Express Agency, Incorporated.....			173,493	
Shawinigan Falls Terminal Railway Company.....			12,500	
				4,032,997
Deposit—				
Trans-Canada Air Lines— <i>Credit</i>				13,500,000
Total at 31st December, 1952.....				\$ 51,256,597

MAJOR CONTINGENT LIABILITIES

Chicago & Western Indiana Railroad Company—

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated May 1, 1952, between Grand Trunk Western Railroad Company and four other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds are First Collateral Trust Mortgage 4½% Sinking Fund Bonds Series "A" due May 1, 1982, and the amount outstanding at 31st December, 1952, is \$64,239,000.

The Detroit & Toledo Shore Line Railroad Company—

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4%—50 Year Gold Bonds due January 1, 1953. These bonds are to be redeemed out of proceeds of \$3,000,000 First Mortgage 3¼%—30 Year, Series "A" Bonds, dated December 1, 1952, which are guaranteed jointly and severally by the Grand Trunk Western Railroad Company in respect of principal, interest and sinking fund payments.

The Toledo Terminal Railroad Company—

Assumed by Grand Trunk Western Railroad Company in respect of \$6,000,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68%.

C.N.R. Pension Plan—

Reserves have been set up against pensions in force under the 1935 plan, but not for the increase in allowances granted effective 1st July, 1952, to employees on pension on 1st January, 1952, or in respect of pensions conditionally accruing to employees in service covered by the 1935 plan or prior plans.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

	Balance at 31st Dec. 1951	Year 1952 Adjustment effective 1st Jan., 1952, under Capital Revision Act, 1952	Year 1952 Current transactions	Balance at 31st Dec., 1952
Equity Capital*—				
Capital stock of Canadian National Railway Company..	\$ 18,000,000	\$378,518,135 (a)	—	\$ 396,518,135
Capital stock of The Canadian National Railways Securities Trust.....	378,518,135	378,518,135 (a)	—	—
4% Preferred stock of Canadian National Railway Company.....	—	736,385,405 (b)	\$ 18,486,540	754,871,945
Capital investment of Government of Canada in the Canadian Government Railways.....	379,877,514	—	195,270	379,682,244
Government of Canada — Shareholder's Account....	\$ 776,395,649	\$736,385,405	\$ 18,291,270	\$1,531,072,324
Percent of capitalization.	34.5%	—	—	64.75%
Borrowed Capital—				
Funded debt.....	\$ 615,197,035	—	\$ 9,702,206	\$ 605,494,829
Government of Canada loans and debentures.....	857,573,774	\$736,385,405 (b)	106,866,796	228,055,165
	\$1,472,770,809	\$736,385,405	\$ 97,164,590	\$ 833,549,994
Percent of capitalization.	65.5%	—	—	35.25%
Total capitalization.....	\$2,249,166,458	—	\$115,455,860	\$2,364,622,318

*Excludes shares of subsidiary companies owned by public — \$4,516,490.

Note:—(a) The capital stock of the Securities Trust, previously owned by the Government of Canada, was transferred to the Canadian National Railway Company in consideration for a like amount of capital stock of the National Company.

(b) The 4% preferred stock is represented by shares having a par value of one dollar each, in respect of which non-cumulative dividends shall, from time to time, be paid to the extent that earnings are available for distribution in any year.

The amount issued under the adjustment authorized by the Capital Revision Act, and for which a like amount of Government of Canada loans have been cancelled, is equal to fifty percent of the Borrowed Capital at 31st December, 1951.

FINANCING

YEAR 1952

Equity Capital—			
4% Preferred stock of Canadian National Railway Company purchased by Government of Canada.....		\$ 18,486,540	
Capital investment of Government of Canada in the Canadian Government Railways.....		195,270	\$ 18,291,270
Borrowed Capital—			
Funded debt — Retirements:—			
Equipment Trusts — Serial payments.....		\$ 9,560,000	
2½% Newfoundland Railway Registered Instalment Notes.....		142,206	9,702,206
Government of Canada loans and debentures:—			
Capital expenditures and working capital.....		\$ 94,586,864	
Debt redemption.....		12,279,932	106,866,796
	Net increase in borrowed capital		\$ 97,164,590
	Increase in total capitalization..		\$115,455,860

The 4% preferred stock purchased by the Government of Canada was issued under the provisions of The Canadian National Railways Capital Revision Act, 1952. The Act provides that in respect of each of the years 1952 to 1960, inclusive, the Government shall purchase, at the par value of one dollar each, shares of stock having a total par value equal to three percent of the gross revenues of the National System. At the 31st December, 1952, stock has been issued in respect of the revenues for the eleven months ended the 30th November. The amounts received from the sale of the stock have been utilized for additions and betterments included in the 1952 budget of capital expenditures.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA

Company number		
1	{ Canadian National Railway Company (Common).....	\$ 396,518,135
	{ Canadian National Railway Company (Preferred).....	754,871,945
		<u>\$1,151,390,030</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
2	Atlantic and St. Lawrence Railroad Company....	1	\$ -6,302,340	\$ 7,840
3	The Bay of Quinte Railway Company.....	20	1,395,000	
4	The Bessemer and Barry's Bay Railway Company.....	20	125,000	
5	The Canadian Express Company.....	1	1,768,800	
6	Canadian National Electric Railways.....	20	1,750,000	
7	Canadian National Express Company.....	21	1,000,000	
8	*Canadian National Railways (France)—frances 30,000,000.....	1	1,893,574	
9	The Canadian National Railways Securities Trust.....	1	5 million shares	
10	*Canadian National Realities, Limited.....	20	40,000	
11	Canadian National Rolling Stock Limited.....	1	5,000	
12	*Canadian National Steamship Company, Limited.....	40	15,000	
13	Canadian National Telegraph Company.....	20	500,000	
14	*Canadian National Transportation, Limited....	1	500	
15	The Canadian Northern Alberta Railway Company.....	20	3,000,000	
16	Canadian Northern Manitoba Railway Company	20	250,000	
17	The Canadian Northern Ontario Railway Company.....	20	10,000,000	
18	Canadian Northern Pacific Railway Company..	20	25,000,000	
19	The Canadian Northern Quebec Railway Company.....	20	9,550,000	3,849,200
20	The Canadian Northern Railway Company.....	1	18,000,000	
21	The Canadian Northern Railway Express Company, Limited.....	20	1,000,000	
22	Canadian Northern Steamships, Limited.....	20	2,000,000	
23	Canadian Northern System Terminals (Limited)	20	2,000,000	
24	Canadian Northern Western Railway Company..	20	2,000,000	
25	*The Centmont Corporation.....	28	176,400	
26	Central Counties Railway.....	1	500,000	12,000
27	The Central Ontario Railway.....	20	3,331,000	
28	Central Vermont Railway, Inc.....	1	10,000,000	
29	Central Vermont Terminal, Inc.....	28	5,000	
30	*Central Vermont Transit Corporation.....	25	5,000	
31	Central Vermont Transportation Company.....	25, 28	200,000	
32	The Champlain and St. Lawrence Railroad Company.....	1	50,000	
33	*Consolidated Land Corporation.....	43	64,000	
34	Duluth, Rainy Lake & Winnipeg Railway Company.....	36	2,000,000	
35	Duluth, Winnipeg and Pacific Railroad Company.....	36	100,000	
36	Duluth, Winnipeg and Pacific Railway Company	20	3,100,000	
37	*Grand-Trunk-Milwaukee Car Ferry Company..	43	200,000	
38	The Grand Trunk Pacific Branch Lines Company.....	40	200,000	
39	The Grand Trunk Pacific Development Company, Limited.....	40	3,000,000	
40	The Grand Trunk Pacific Railway Company....	1	24,940,200	
41	The Grand Trunk Pacific Saskatchewan Railway Company.....	40	20,000	
42	*Grand Trunk Pacific Terminal Elevator Company, (Limited).....	40	501,000	
	{ Grand Trunk Western Railroad Company (Common) }	1	20,000,000	
43	{ Grand Trunk Western Railroad Company (Preferred) }		25,000,000	
44	The Great North Western Telegraph Company of Canada (Including \$331,500 held in escrow)..	13	373,625	6,825
45	The Halifax and South Western Railway Company.....	20	1,000,000	
46	*Industrial Land-Company.....	43	1,000	
47	International Bridge Company.....	1	1,500,000	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM (Continued)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC (Continued)

Company number	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
48	The James Bay and Eastern Railway Company.	20	125,000	
49	The Lake Superior Terminals Company Limited	20	500,000	
50	The Maganetawan River Railway Company....	1	30,000	
51	Manitoba Northern Railway Company.....	1	500,000	
52	The Marmora Railway and Mining Company....	20	128,600	
53	The Minnesota and Manitoba Railroad Company	20	400,000	
54	The Minnesota and Ontario Bridge Company....	20	100,000	
55	*Montreal and Southern Counties Railway Company.....	1	500,000	140,600
56	The Montreal and Vermont Junction Railway Company.....	28	197,300	
57	*Montreal Fruit & Produce Terminal Company, Limited.....	1	500	
58	*The Montreal Stock Yards Company.....	1	\$ 350,000	
59	*The Montreal Warehousing Company.....	1	236,000	10,440
60	Mount Royal Tunnel and Terminal Company, Limited.....	20	5,000,000	
61	Muskegon Railway and Navigation Company...	43	161,293	
62	*National Terminals of Canada, Limited.....	1	2,500	
63	National Transcontinental Railway Branch Lines Company.....	1	500	
64	*The Niagara, St. Catharines and Toronto Railway Company.....	20	925,000	
65	The Niagars, St. Catharines and Toronto Navigation Company (Limited).....	64	100,000	
66	*The Oshawa Railway Company.....	1	40,000	
67	The Ottawa Terminals Railway Company.....	1	250,000	
68	The Pembroke Southern Railway Company...	1	107,800	
69	Prince George, Limited.....	1	10,000	
70	Prince Rupert, Limited.....	1	10,000	
71	The Quebec and Lake St. John Railway Company.....	20	4,508,300	489,160
72	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company.....	20	201,000	
73	St.Boniface Western Land Company.....	20	230,000	
74	The St. Charles and Huron River Railway Company.....	20	1,000	
75	St. Clair Tunnel Company.....	1	700,000	
76	*The Thousand Islands Railway Company.....	1	60,000	
77	The United States and Canada Rail Road Company.....	1	219,400	
78	Vermont and Province Line Railroad Company.	1	200,000	
79	The Winnipeg Land Company Limited.....	20	100,000	
				<u>\$4,516,490</u>

The income accounts of companies indicated (*) are included in the System income account as "Separately operated properties."

EQUIPMENT PLACED IN SERVICE DURING 1952

Diesel-Electric Locomotives—

25	1600 HP road locomotives
42	1500 HP road locomotives
15	1200 HP road switching locomotives
15	1200 HP switching locomotives
8	1000 HP switching locomotives
10	660 HP switching locomotives

Passenger Equipment—

6	sleeping cars
4	standard baggage cars
3	postal cars
6	multiple unit cars
12	multiple unit trailer cars

Freight Equipment—

1760	50-ton box cars
60	30-ton box cars
1000	40-ton automobile cars
800	50-ton flat cars
100	30-ton flat cars
10	30-ton stock cars
1750	70-ton triple hopper cars
5	aluminum hopper cars
2250	70-ton gondola cars
75	70-ton ballast cars
500	50-ton refrigerator cars
7	caboose cars

Work Equipment—

30	30 cu. yd. 50-ton air dump-cars
20	16 cu. yd. 30-ton air dump cars
2	diesel locomotive cranes, 30-ton
2	diesel locomotive cranes, 40-ton
1	scale test—four wheel type, 80,000 lb. capacity
3	Jordan spreaders
1	snow plow
9	miscellaneous units built from salvage in railway shops

SESSIONAL COMMITTEE

INVENTORY OF RAILWAY EQUIPMENT

	On hand Jan. 1, 1952	Placed in service	Retired	Converted Added	Retired	On hand Dec. 31, 1952	Orders outstanding Dec. 31, 1952
Locomotives—							
Steam—Road.....	1,901		17			1,884	
“ Switching.....	539		6			533	
Electric.....	33					33	
Diesel-electric—Road.....	90	67				157	21
“ “ —Road switching....	30	15				45	6
“ “ —Switching.....	160	33				193	26
Total.....	2,753	115	23			2,845	53
Freight Equipment—							
Box cars.....	78,928	2,820	1,576		608	79,564	2,150
Flat cars.....	5,579	900	189	1	97	6,374	155
Stock cars.....	3,103	10	43			3,070	
Coal cars.....	15,489	4,080	813		11	18,745	2,875
Tank cars.....	224		3		188	33	
Refrigerator cars.....	3,952	500	31			4,421	250
Caboose cars.....	1,785	7	41	70		1,821	
Other cars in freight service.....	6		3			3	
Total.....	109,246	8,317	2,699	71	904	114,031	5,430
Passenger Equipment—							
Coach cars.....	1,110		24		15	1,071	166
Combination cars.....	266		6			260	5
Dining cars.....	92		2		1	89	
Colonist cars.....	146		1		1	144	
Parlor cars.....	60					60	
Cafe cars.....	20					20	
Sleeping cars.....	372	6			3	375	141
Tourist cars.....	42				1	41	
Baggage and express cars.....	1,265	4	10		1	1,258	118
Postal cars.....	53	3		1		57	
Unit cars.....	36	6				42	
Other cars in passenger service.....	79	12	4	3		90	
Total.....	3,541	31	47	4	22	3,507	430
Work Equipment—							
Units in work service.....	8,085	68	335	852	1	8,669	54
Floating Equipment—							
Car ferries.....	8					8	
Barges.....	6					6	
Steamers.....	14					14	
Tugs.....	5					5	
Work.....	3					3	

STATISTICS OF RAIL-LINE OPERATIONS

	1952	1951
Train-Miles—		
Freight service.....	49,541,512	48,353,158
Passenger service.....	25,533,678	24,412,847
Work service.....	2,216,042	2,390,845
Total train-miles.....	77,291,232	75,156,850
Locomotive-Miles—		
Freight service.....	52,478,053	51,433,200
Passenger service.....	25,469,027	24,548,619
Train switching— Freight.....	4,076,441	4,069,286
— Passenger.....	155,117	156,472
Yard switching— Freight.....	18,179,442	17,856,977
— Passenger.....	1,880,426	1,787,151
Work service.....	2,319,340	2,515,865
Total locomotive-miles.....	104,557,846	102,367,570

STATISTICS OF RAIL-LINE OPERATIONS—*Continued*

Car-Miles—

Freight Service:		
Loaded freight cars.....	1,348,044,272	1,313,474,003
Empty freight cars.....	636,698,594	562,081,865
Passenger coach and combination cars.....	6,306,354	6,980,076
Other cars.....	9,074,540	8,522,548
Caboose cars.....	48,778,742	47,548,666
	<hr/> 2,048,902,502	<hr/> 1,938,607,158

Passenger Service:

Loaded freight cars.....	610,862	627,687
Empty freight cars.....	116,680	89,545
Passenger coach and combination cars.....	64,726,314	63,831,093
Sleeping, parlor and observation cars.....	56,249,942	53,813,300
Dining cars.....	9,031,094	8,703,355
Motor unit cars.....	969,111	660,448
Other cars (baggage and express cars, etc.).....	89,249,973	82,961,530
	<hr/> 220,953,976	<hr/> 210,686,958
Work service.....	<hr/> 3,784,742	<hr/> 3,824,341

Total car-miles.....	<hr/> 2,273,641,220	<hr/> 2,153,118,457
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Average mileage of road operated.....	24,190.01	24,176.07
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Freight Traffic—

Tons carried—Revenue freight.....	90,053,919	89,618,436
Ton-miles—Revenue freight.....	38,430,494,637	36,434,821,058
Freight revenue.....	\$536,723,241	\$498,800,344
Revenue per ton.....	\$5.96002	\$5.56582
Revenue per ton-mile.....	\$0.01369	\$0.01369
Average haul.....	426.75	406.55
Ton-miles—Revenue freight per mile of road.....	1,584,763	1,501,578
Ton-miles—All freight per mile of road.....	1,708,033	1,624,019
Gross ton-miles of cars, contents and cabooses.....	88,651,930,140	83,988,594,508
Net ton-miles of freight (revenue and non-revenue).....	41,317,325,044	39,262,386,491
Train-hours in freight road service.....	2,990,402	3,015,621
Gross ton-miles per freight train hour.....	29,309	27,593
Average speed of freight trains.....	16.6	16.1
Average gross load—Freight trains (tons).....	1,771	1,719
Steam locomotive miles per serviceable day (excluding stored).....	137	141
Diesel unit miles per serviceable day (excluding stored).....	294	294

Passenger Traffic—

Passengers carried.....	18,832,815	17,322,723
Passenger-miles.....	1,635,201,983	1,611,153,281
Passenger revenue.....	\$48,466,128	\$47,475,661
Revenue per passenger.....	\$2.57349	\$2.74066
Average passenger journey.....	86.83	93.01
Revenue per passenger mile.....	\$0.02964	\$0.02947
Passenger-miles per mile of road.....	67,598	66,642
Percent on time arrival principal passenger trains.....	66.0	59.8
Steam locomotive miles per serviceable day (excluding stored).....	225	225
Diesel unit miles per serviceable day (excluding stored).....	152	104

Net Railway Operating Income—

Gross revenue per mile of road.....	\$27,913.15	\$25,945.15
Gross railway operating charges per mile of road.....	\$27,107.27	\$24,786.36
Net railway operating income per mile of road.....	<hr/> \$805.88	<hr/> \$1,058.79

SESSIONAL COMMITTEE

REVENUE TONNAGE BY COMMODITIES

	Year 1952	Year 1951	Increase or decrease	
	Tons	Tons	Tons	%
Agricultural Products—				
Wheat.....	9,017,832	7,389,538	1,628,294	22.04
Corn.....	452,388	508,563	56,175	11.05
Oats.....	1,750,257	1,407,428	342,829	24.36
Barley.....	2,445,854	1,607,644	838,210	52.14
Rye.....	199,254	121,155	78,099	64.46
Flaxseed.....	119,359	85,763	33,596	39.17
Other grain (including dried peas, beans, soya beans)...	229,163	219,271	9,892	4.51
Flour.....	975,924	975,448	476	.05
Other mill products.....	1,359,269	1,366,531	7,262	.53
Hay and straw.....	59,136	103,086	43,950	42.63
Cotton.....	86,482	87,533	1,051	1.20
Apples (fresh).....	73,494	76,446	2,952	3.86
Other fruit (fresh).....	363,457	326,872	36,585	11.19
Potatoes.....	364,283	346,474	17,809	5.14
Other fresh vegetables.....	284,350	264,430	19,920	7.53
Other agricultural products.....	732,905	795,481	62,576	7.87
Total.....	18,513,407	15,681,663	2,831,744	18.06
Animal Products—				
Horses.....	30,229	41,788	11,559	27.66
Cattle and calves.....	175,372	216,712	41,340	19.08
Sheep.....	7,007	8,198	1,191	14.53
Hogs.....	157,513	122,964	34,549	28.10
Poultry (live).....	77	133	56	42.11
Dressed meats or dressed poultry (fresh or frozen).....	177,417	215,442	38,025	17.65
Dressed meats (cured or salted).....	24,231	26,616	2,385	8.96
Other packing house products (edible).....	77,447	92,655	15,208	16.41
Eggs.....	7,519	8,268	749	9.06
Butter.....	27,607	38,743	11,136	28.74
Cheese.....	22,048	24,841	2,793	11.24
Wool.....	24,702	29,460	4,758	16.15
Hides and leather.....	60,028	63,410	3,382	5.33
Other animal products (non-edible).....	98,858	97,866	992	1.01
Total.....	890,055	987,096	97,041	9.33
Mine Products—				
Anthracite coal.....	2,334,498	2,377,551	43,053	1.81
Bituminous coal.....	10,219,575	10,728,805	509,230	4.75
Sub-bituminous coal.....	1,191,821	1,187,981	3,840	.32
Lignite coal.....	622,268	738,923	116,655	15.79
Coke.....	798,755	969,031	170,276	17.57
Iron ores and concentrates.....	1,522,072	1,562,925	40,853	2.61
Copper ore and concentrates.....	191,880	213,218	21,338	10.01
Other ores and concentrates.....	3,216,431	2,991,499	224,932	7.52
Base bullion, matte, pig and ingot (non-ferrous metals)...	595,813	616,871	21,058	3.41
Sand and gravel.....	2,615,471	2,299,310	316,161	13.75
Stone crushed, ground, broken).....	3,266,851	2,906,225	360,626	12.41
Slate, dimension or block stone.....	62,428	74,934	12,506	16.69
Crude petroleum.....	419,728	248,812	170,916	68.69
Asphalt (natural, by-product petroleum).....	475,297	404,825	70,472	17.41
Salt.....	551,420	553,375	1,955	.35
Other mine products (not fully processed).....	2,497,453	2,514,944	17,491	.70
Total.....	30,581,761	30,389,229	192,532	.63
Forest Products—				
Logs, posts, poles, piling.....	1,231,541	945,753	285,788	30.22
Cordwood and other firewood.....	165,363	211,704	46,341	21.89
Ties.....	101,387	63,252	38,135	60.29
Pulpwood.....	6,207,388	7,321,157	1,113,769	15.21
Lumber, timber, box, crate and cooperage material.....	4,268,709	4,766,706	497,997	10.45
Plywood.....	127,801	115,469	12,332	10.68
Other forest products.....	230,606	266,553	34,947	13.49
Total.....	12,332,795	13,690,594	1,357,799	9.92
Carried forward.....	62,318,018	60,748,582	1,569,436	

REVENUE TONNAGE BY COMMODITIES (Continued)

	Year 1952	Year 1951	Increase or decrease	%
Brought forward	Tons 62,318,018	Tons 60,748,582	Tons 1,569,436	
Manufactures and Miscellaneous				
Gasoline.....	2,242,085	2,042,123	199,962	9.79
Petroleum oils and petroleum products {except asphalt. and gasoline }	2,089,374	1,956,627	132,747	6.78
Sugar.....	279,363	298,870	19,507	6.53
Iron, pig and bloom.....	572,898	604,970	32,072	5.30
Rails and fastenings.....	64,995	68,328	3,333	4.83
Iron and steel (bar, sheet, structural, pipe).....	1,948,035	2,049,387	101,352	4.95
Castings, machinery and boilers.....	346,107	337,065	9,042	2.68
Cement.....	1,164,841	993,759	171,082	17.22
Brick and artificial stone.....	379,762	414,683	34,921	8.42
Lime and plaster.....	514,766	581,876	67,110	11.53
Sewer pipe and drain tile.....	48,884	63,650	14,766	23.20
Agricultural implements and vehicles other than autos..	328,306	367,707	39,401	10.72
Automobiles, auto trucks and auto parts.....	1,851,597	2,135,524	283,927	13.30
Household goods and settlers effects.....	11,700	15,080	3,380	22.41
Furniture.....	73,121	69,450	3,671	5.29
Beverages.....	432,470	365,507	66,963	18.32
Fertilizers, all kinds.....	901,903	1,017,687	115,784	11.38
Newspaper paper.....	2,134,134	2,195,111	60,977	2.78
Other paper.....	397,942	428,548	30,606	7.14
Paper board, pulpboard and wallboard (paper).....	628,818	705,434	76,616	10.86
Woodpulp.....	1,289,308	1,642,026	352,718	21.48
Fish (fresh, frozen, cured, etc.).....	84,725	83,241	1,484	1.78
Canned goods (all canned food products).....	597,462	630,081	32,619	5.18
Other manufactures and miscellaneous.....	7,694,209	7,969,875	275,666	3.46
Merchandise (all L.C.L. freight).....	1,659,096	1,833,245	174,149	9.50
Total.....	27,735,901	28,869,854	1,133,953	3.93
Grand total.....	90,053,919	89,618,436	435,483	.49

OPERATED MILEAGE AT 31st DECEMBER, 1952

Operated Road Mileage	Owned	Leased	Trackage rights	Total
Atlantic Region.....	3,790.36	6.41	82.95	3,879.72
Central Region.....	7,155.21	327.22	14.77	7,497.20
Western Region.....	11,341.16	34.84	92.54	11,468.54
Grand Trunk Western Lines.....	883.10	9.50	59.75	952.35
Central Vermont Lines.....	363.10	—	58.73	421.83
Total first main track.....	23,532.93	377.97	308.74	24,219.64
Lines in Canada.....	22,071.30	196.10	185.87	22,453.27
Lines in United States.....	1,461.63	181.87	122.87	1,766.37
Operated Mileage All Tracks				
First main track.....	23,532.93	377.97	308.74	24,219.64
Second main track.....	1,229.39	9.31	72.16	1,310.86
Third main track.....	30.30	—	3.49	33.79
Fourth and other main tracks.....	9.72	—	5.09	14.81
Spurs, sidings and yard tracks.....	6,233.72	122.99	1,353.21	7,709.92
Total all tracks.....	31,036.06	510.27	1,742.69	33,289.02

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL

Year	Operating revenues	Operating expenses	Net operating revenues	Operating ratio %	Cash surplus or deficit	Revenue ton miles (millions)	Revenue per ton mile C.	Revenue passenger miles (millions)	Revenue per passenger mile C.	Average hourly earnings per employee*
1928	\$ 304,591,268	\$ 249,731,696	\$54,859,572	81.99	\$ 3,463,752	22,588	1.011	1,514	2.585	\$.608
1929	290,496,980	248,632,275	41,864,705	85.59	12,461,631	19,375	1.108	1,401	2.650	.619
1930	250,368,998	228,288,023	22,080,975	91.17	35,677,097	16,910	1.086	1,214	2.710	.640
1931	200,505,162	199,312,995	1,192,167	99.41	60,968,438	14,610	1.020	866	2.679	.649
1932	161,103,984	155,208,161	5,895,823	96.34	60,841,727	12,818	.942	686	2.515	.612
1933	148,519,742	142,812,559	5,707,183	96.16	58,955,588	11,550	.972	665	2.261	.582
1934	164,902,502	151,936,079	12,966,423	92.14	48,407,901	12,950	.974	723	2.259	.559
1935	173,184,502	158,926,249	14,258,253	91.77	47,421,465	13,509	.990	770	2.162	.583
1936	186,610,489	171,477,690	15,132,799	91.89	43,303,394	14,814	.982	831	2.048	.582
1937	198,396,609	180,788,858	17,607,751	91.12	42,345,868	15,165	1.014	953	1.987	.605
1938	182,241,723	176,175,312	6,066,411	96.67	54,314,196	14,505	.964	892	2.030	.647
1939	203,820,186	182,965,768	20,854,418	89.77	40,095,520	17,084	.938	875	2.035	.645
1940	247,827,225	202,519,813	45,007,412	81.82	16,965,044	21,532	.904	1,125	1.929	.643
1941	304,376,778	237,768,437	66,608,341	78.12	4,016,327	27,200	.881	1,762	1.810	.675
1942	375,654,544	288,998,675	86,655,869	76.93	25,063,268	31,729	.909	2,708	1.784	.721
1943	440,615,954	324,475,669	116,140,285	73.64	35,639,412	36,327	.894	3,619	1.848	.734
1944	441,147,510	362,547,043	78,600,467	82.18	23,026,924	36,016	.893	3,697	1.888	.846
1945	433,773,394	355,294,049	78,479,345	81.91	24,756,130	34,600	.915	3,338	1.953	.831
1946	400,886,026	357,236,718	43,349,308	89.18	8,961,570	30,812	.975	2,289	2.190	.877
1947	438,197,980	397,122,607	41,075,373	90.63	15,885,194	32,945	1.040	1,845	2.332	.905
1948	491,269,950	464,759,970	26,529,980	94.60	33,532,741	32,943	1.195	1,755	2.368	1.085
1949	500,723,386	478,501,660	22,221,726	95.56	42,045,027	30,922	1.276	1,621	2.671	1.119
1950	553,831,581	493,997,079	59,834,502	89.20	8,261,235	31,988	1.394	1,408	2.834	1.135
1951	624,834,120	580,150,221	44,683,899	92.85	15,031,996	36,435	1.369	1,611	2.947	1.320
1952	675,219,415	634,852,915	40,366,500	94.02	142,327	38,430	1.397	1,635	2.964	1.405†

* Canadian lines only, excluding hotel and subsidiary company employees.

† This figure would become \$1.453 if adjusted to include retroactive settlements with non-operating employees and with trainmen and firemen.

The CHAIRMAN: I will call first the review of financial results.

Mr. FULTON: Do you want a motion that the statistical tables be included as well as the text? Is that necessary?

The CHAIRMAN: We usually take up the tables along with the review of the financial results and we will do that again this year.

Mr. MACDONNELL: Are we at No. 1?

The CHAIRMAN: Yes, the table.

Mr. MACDONNELL: Mr. Gordon, if I remember correctly a year ago in forecasting 1952 you gave us figures which you said at the time were a guess. Will you comment on them?

I have it that your estimate of operating revenue was \$663 million and operating expenses \$613 million. Would you be prepared to explain that?

Mr. GORDON: You mean compare the operating figures with our guess?

Mr. MACDONNELL: Yes. You told us quite frankly it was a guess.

Mr. GORDON: When preparing the budget last year our operating revenues were forecast at \$663 million and turned out at \$675 million, and operating expenses were forecast 613 million and turned out at \$634 million, the major reason being, in estimating our expenses, we had not taken into account the later wage adjustment.

Mr. MACDONNELL: Is the wage adjustment practically the whole answer?

Mr. GORDON: Yes. Plus a margin for any rise in prices, but the major difference is in wages.

The CHAIRMAN: Any further questions?

Mr. GILLIS: I would like to ask if Mr. Gordon can give us the figures for 1952 as to the cost of changing over to diesel engines. How much money was spent by the railway in replacing steam engines for diesel engines in that year?

The CHAIRMAN: I wonder if that should not come under motive power?

Mr. GILLIS: I would like it here, because Mr. Gordon agrees increased wages is the major difference in the balance sheet he shows today.

Mr. GORDON: I think you are confusing two things. We are dealing here with the income account. The expenditures for the diesel conversion would be in the capital account and that will come up in our capital budget and I will then have the figures available showing what diesels we put in.

Mr. GILLIS: It is also reflected in the statement here.

Mr. GORDON: Nevertheless it is a capital expense.

The CHAIRMAN: It is not an operating expense.

Mr. MACDONNELL: Mr. Gillis is right. It is reflected in the expenses?

Mr. GORDON: Yes, indirectly.

Mr. BROWNE: How does your position compare in 1952 with 1951 if you had to pay the interest charges?

Mr. GORDON: The 1952 actual results, you will observe, give you an operating surplus of \$142,327. If the Capital Revision Act had not gone into effect we would have had a deficit of \$25,500,000 compared with \$15,031,000 deficit for 1951.

Mr. BROWNE: How do you account for the worsening of the picture by \$10 millions?

Mr. GORDON: The facts I have already mentioned, which were in connection with increased costs, made our operating expenses actually come out at \$634 million of about \$20 million more than our estimate. If you go to paragraph 2: "increased operating expenses due principally to higher wage rates more than offset a gain of 8.1 per cent in operating revenues..." In other words, the

reason for the result is that our costs are steadily going up in relation to both prices and wages and our freight rates, our earnings, are not rising commensurately. If you look again at the chart on page 10 you will see what I mean, that prices have gone right up to the top of the chart, whereas our services have only gone up by 43 per cent.

Mr. BROWNE: Your prices came down in 1952 but your revenue went up?

Mr. GORDON: I am talking in this chart about the wholesale price index. This is what happened to the wholesale prices of commodities. The illustration is that what we got for our services did not rise as fast as the prices other people got for their goods. If you look at the item under prices on page 11: you will note it is estimated that increased prices for railway materials added about \$12 million dollars.

At the top of page 11 you will see we paid \$22 million for additional payroll costs as compared to 1951. We have paid in wages and materials about \$34½ million more than we did in 1951. That is where our increase expense took place.

Mr. GILLIS: What do you classify as materials?

Mr. GORDON: Any supplies used, rails, ties, anything needed to run the railway.

Mr. BROWNE: Diesel engines?

Mr. GORDON: No. That is capital account. This is only operating account. I am wrong about rails also. It is capital account. But coal would be in it.

Mr. MACDONNELL: I see ties and steel products.

Mr. GORDON: The replacement of rail would be maintenance.

Mr. MACDONNELL: I am referring to paragraph 32 on page 11. We have known, of course, about the wage increases because they have been of public interest. Can your economic department say anything as to the likelihood of rising cost of materials?

Mr. GORDON: I could not predict for the future. I would make a guess that we have reached a bit of a plateau.

Mr. MACDONNELL: Is there any difference in the situation?

Mr. GORDON: Yes. We are flattening out in regard to rising prices.

Mr. MACDONNELL: I notice there are certain statements made as to accounting practice. Is the practice you followed here normal?

I mean, do you turn back into income things which were previously provided by income?

Mr. GORDON: Yes. The only difference that can arise is as to the timing. In this particular case this reserve was set up during the war by reason of an arrangement with the government whereby the railroad was asked to provide a lot of siding tracks in a hurry for war industry. It was assumed at that time that those tracks would not necessarily be required once the war was over, and it was expected that they would be torn up and replaced. Therefore this reserve was set up for writing off the tracks when they were lifted. But with changing events and with the Korean situation, practically none of those tracks was lifted and we are using them today.

The CHAIRMAN: May I interrupt at this point? Is it the wish of the committee that the entire report today be printed at this point in our records? Our first reporter is now about to leave and I think we should decide it.

Agreed.

Mr. MACDONNELL: Why are we re-printing all this?

The CHAIRMAN: Mr. Gordon has read three parts of it. Are there any questions?

Mr. MACDONNELL: I thought that we did not do so.

The CHAIRMAN: Very well, Mr. Gordon.

Mr. GORDON: I was going to conclude that the only questions which could arise in regard to the accounting practice was the time of doing it, last year, or next year, and so forth. And this represents the decision of management that we are going to need these tracks and so we might as well make the entry now. And as a result of making the entry this year, it produces a surplus which would not otherwise have been produced.

Mr. MACDONNELL: I think you have made that quite clear.

Mr. GORDON: Yes.

The CHAIRMAN: It is agreed. Now, "Volume of Freight Traffic".

Mr. MACDONNELL: I am sorry, Mr. Chairman.

The CHAIRMAN: Very well, Mr. Macdonnell.

Mr. CHURCHILL: In paragraph 6 on page 7, Mr. Chairman, mention is made of this fact:

It is represented on the one hand by increased compensation, and on the other by the lowest average level of freight rates to be found in any country in the western world.

Mr. GORDON: Yes.

Mr. CHURCHILL: That sounds very nice. But what is the method of comparison? How do you arrive at a comparison with other countries?

Mr. GORDON: By actual statistical information which we secure from those countries. We are in touch with all the railway statistics of the various countries, and I have a table here.

Mr. CHURCHILL: Is it strictly comparable?

Mr. GORDON: Oh yes, as far as we know, it would be strictly comparable. Railway statistics are a statistician's dream, if I may put it that way. I mean that a statistician just loves to work on railway statistics. Every country in the world has a mass of railway statistics which are regularly produced. We keep in touch with each other. I have before me a statement for 1951 which shows the average revenue and so on, and it is also boiled down to a ton-mile basis. These include countries such as Australia, Belgium, Great Britain, and so on.

The CHAIRMAN: Would you like to have that list made an appendix to our record today?

Mr. CHURCHILL: I presume that would be all right. It is the average level of freight rates?

Mr. GORDON: I mean of the revenue, per ton-mile.

Mr. CHURCHILL: From freight?

Mr. GORDON: Yes, from freight. And my point is that you see the benefit of the over-all improvement in productivity which came out of the more efficient operation of the railway machine. It meant a reduction in cost of many many millions of dollars; and these millions of dollars have gone directly to labour, or to the consumer.

To put it another way, if the same forces had applied to our revenue dollar, that is, if the revenue dollar had had the same proportionate increase in 1952 as compared with 1928 as did the expenditure dollar, the effect would have been that the Canadian National would have shown a profit of close to \$400 million.

I did not stress that \$400 million in my report because I did not want spectacular headlines on the thing. I did not want to get into an argument about how it is made up. But I can easily justify it in any examination. The

reason I put it in the report was that questions have been asked from time to time in the committee, as to the efficiency of the railway and as to the extent by which labour or the consumer might get advantage of the increased productivity.

You are spending millions of dollars here for capital expenditures every year, and the result of doing that is to give the railway labour in this country and to the consumer of our services a very substantial benefit. I do not know what proportion, but I do say that if we were in the same position as we were in 1928, and with the same forces applied to our revenue dollar, we would have shown a profit of nearly \$400 million.

Mr. FULTON: Without capital reorganization?

Mr. GORDON: Without capital reorganization.

Mr. MACDONNELL: You mean in other words that could be arrived at, because your operating revenue would be virtually what it is now, and your expenditures would have been smaller?

Mr. GORDON: I think it is the other way around.

Mr. MACDONNELL: I would expect there would be an infinitely smaller amount in respect to earnings.

Mr. GORDON: I would say that if we had got the benefits under it, our revenue account—I am sorry, but what did you say again?

Mr. MACDONNELL: My understanding of what you have told us is: That if our revenues were what they are, and if there had been on change against us in connection with cost, we would have a \$400 million profit?

Mr. GORDON: You would have to include the traffic volume, and also get into the revenue dollar the same proportion of increase that has gone into our expenditure dollar. In other words, if our revenue had risen in the same proportion under the impact of economic forces as has the expenditure dollar, I would say that we would have got up to \$400 million profit.

The CHAIRMAN: Am I correct in understanding that you are saying in effect that if the freight rates and the passenger rate increases had paralleled the increases in your labour and material cost, you would have shown this \$400 million profit.

Mr. GORDON: That is putting it about right, yes.

Mr. FULTON: Could we take from this table United States, United Kingdom, and Brazil figures showing revenue?

Mr. GORDON: We have not got Brazil for 1952. But the United States figure of revenue per ton-mile is 1.420. Brazil is not out yet.

Mr. BROWNE: What is this 1.420?

Mr. GORDON: That is cents per ton-mile. That means that they carry one ton of freight a mile for a cost of 1.42 in the United States. And in Canada our figure as shown here is 1.397.

Mr. FULTON: And what is it for the United Kingdom?

Mr. GORDON: For the United Kingdom it is shown at 4.224. But let me warn you that there are always qualifications in these things, and we should bear in mind that this figure for the United Kingdom is more or less qualified by the effect of the short hauls there. They do not get the benefit of the longer hauls which we have here. But nevertheless, it is quite clear that my statement is right, and that we still have the lowest.

Mr. FULTON: What country on the North American continent is roughly comparable to Canada, having regard to density of population and mileage involved? Would it be Brazil?

Mr. GORDON: We have regard to the United States in our 1951 figure. It is hard to say in point of size. For instance, Sweden is regarded as a pretty well operated country. It shows 1.9. I have not got the Argentine here.

The sources of these figures are available. It is a matter of public knowledge. They are published by a source known as International Railway Statistics. I have only made a selection of them, and not the worst examples by any means. I have just taken across the line examples.

Mr. CHURCHILL: What is the basis of comparison?

Mr. GORDON: They are just as comparable as anything can be. There is always a variety of reasons. For example, in Canada we have two trans-continental railways so we get the operating benefits. You see here the benefits of the Canadian National System and the fact that there are only two railways, the Canadian National and the Canadian Pacific. It has given us an advantage in that respect. And I merely point out here, having regard to all the circumstances, that we have done a good job which is measured by the fact that we have the lowest freight rate per ton-mile of the world.

Mr. FULTON: Is that the Canadian average figure for Canada, or is it the system figure?

Mr. GORDON: This figure here is the system figure. It is the Canadian National System only.

Mr. BROWNE: Mr. Gordon has told us that if we had to pay interest, there would be another \$10 million.

Mr. GORDON: I beg your pardon. I mean there would have been a deficit \$25 million and not \$15 million.

Mr. BROWNE: Your position is \$10 million worse than it would have been 1951?

Mr. GORDON: That is right, as a comparison of forecast and actual net operating revenues.

Mr. BROWNE: How does that compare with the other system, the Canadian Pacific?

Mr. GORDON: I do not know.

Mr. BROWNE: That must be available to you. You are comparing your rates with all the other roads in the world. Are you not making a comparison with the Canadian Pacific?

Mr. GORDON: I have not got a copy of the annual report of the Canadian Pacific for last year. I do not think it is out yet.

Mr. FULTON: I understand that their net earnings were down this year. That is a matter of public knowledge, I think.

Mr. GORDON: I have not seen their report so I could not say. Of course, I have seen newspaper reports, but I do not go along with newspaper reports in every case.

Mr. MUTCH: Especially at such a time as this.

Mr. GORDON: I would like to see the facts for myself.

Mr. MACDONNELL: Are Canadian rates not uniform for both railways?

Mr. GORDON: I am talking about earnings and averages. Yes, that is right. As far as the result of the earnings of the Canadian National is concerned and the average revenue per ton-mile, that would be affected by the quality of traffic on the respective lines. We may or may not have carried a larger volume of higher rated traffic than the Canadian Pacific and so forth. But you are talking about the lowest average of freight rates, are you not?

Mr. MACDONNELL: That is my question.

Hon. Mr. CHEVRIER: On the table you have just referred to a moment ago there are given unit costs for Canada, and that is included by railways in Canada.

Mr. GORDON: That is right.

Hon. Mr. CHEVRIER: Whereas, in your report you refer to the unit cost of the Canadian National Railways.

Mr. GORDON: I am referring to the Canadian National Railways here. But when I refer to the lowest average freight rates to be found in the western world, I am talking about Canadian average freight rates per ton-mile and I am comparing them with other countries.

Mr. MACDONNELL: You said that our rates are lower than the United States rates. Could you give us a word in explanation of that? Does it have to do with the relative amount of our traffic which is longer haul, and also the Crowsnest Pass rates, which would seem to make it more difficult for our railways, with lower density of traffic, to get along with their rates?

Mr. GORDON: We are not getting along. That is the answer, and for the simple reason that although we have handled business totalling \$675 million, nevertheless I am only able to report a surplus of \$142,000. And by any standard of comparison with any other industry I submit we should have a surplus of from \$20 million to \$25 million, I should think.

Mr. MACDONNELL: In paragraph No. 5 you say:

"Canadian National freight services, as measured by the average revenue per ton-mile, has risen by only 38 per cent."

Mr. GORDON: Yes.

Mr. MACDONNELL: I am not clear about that. I seem to have seen a figure within the last few days. I am sorry but I cannot remember where I saw that figure; but it was very much larger than that.

Mr. BROWNE: It was 98 per cent.

Mr. GORDON: Let me explain that. There are three different figures which are affected when we talk about a freight rate increase. The first figure is what is called the nominal freight rate increase—that means taking the overall awards of the Board of Transport Commissioners and simply adding them together. They come to a figure as from 1948 when they started, of around 98 per cent. In other words, if we had been able to take advantage of what we had been given permission to do we would have made an increase in our rates which would be represented by 98 per cent. But there is another practical figure.

Mr. BROWNE: That would not necessarily mean an increase in your income by 98 per cent?

Mr. GORDON: It would, if we had been able to collect it.

Mr. BROWNE: Did your rates have a bearing on the amount of traffic?

Mr. GORDON: We are permitted to raise our rates to that extent on freight traffic. But the practical thing is this: There is a great deal of traffic on which we cannot raise the rates. We cannot raise them on the Crow's Nest Pass, and in connection with competitive traffic, and in regard to agreed charges, and things of that kind. So, if you try to explain just what has come about, you get into what is called the effective increase, and the effective increase in Canada turned out to be about 68 per cent.

Now then, I come to the practical matter which is this figure here of 38 per cent because that is all we have been able to get as average revenue per ton-mile, as between 1928 and 1953, and that is affected by the quality of the traffic. So I am saying here that in running the railway we have

only been able to increase the average amount that we get for carrying goods by 38 per cent. Actually, the Board of Transport Commissioners have given us permission to raise the rates to the extent of 98 per cent.

Mr. BROWNE: That is not very widely understood.

Mr. GORDON: No. And there is also this factor: I do not want to distort the picture. There are some phases of our freight traffic which will have to bear the whole 98 per cent; and there are also some phases of our freight traffic which will not have any increase at all. Therefore, we start with zero increase, being the statutory rates, the Crow's Nest Pass rates, and range all the way up to 98 per cent, depending on what we can get. We watch our competitive traffic very closely.

Mr. BROWNE: Perhaps you would be good enough to say a word about competition. What is the most important competition which you have to face?

Mr. GORDON: The most important competition which we have to face is obviously that of highway trucking. They go after our most valuable traffic, our highest rate traffic. That is what our trouble is in regard to that type of competition. We are in this dilemma all the time and it is getting increasingly worse with each freight rate increase which the Board of Transport Commissioners awards us upon our representations regarding higher prices; including, of course, labour costs.

The area in which we can get an effective increase without pricing ourselves out of the market is narrowing steadily. There are two ways of pricing oneself out of a market. It is not always competition. We can price ourselves out of a market if there are competitors who are willing to do the job at a less price. But we can also kill traffic which will not originate for anybody. It just kills off the shipper.

A good example, I think, is this case: I was down yesterday looking at the Chateau Laurier hotel. You may remember the days when we had a lovely strip of awning down the side, and all Ottawa would come out there to have tea. And there was a beautiful orchestra playing there on Saturdays and Sunday afternoons. There were a great many questions decided under that awning, and under conditions of harmony which perhaps were very favourable. But that has now been priced out of the market. One reason would be the high cost of providing music. Another reason would be that of the working hours. It would mean another crew of waiters, and people will not pay the price. It does not mean that people still do not like tea; but whereas we served it at one time for, let us say, 35 cents, it might cost \$2.50 today, and people will not pay that much for tea. They may be willing to pay it for other things, but not for tea.

Mr. BROWNE: Yes, for a high ball.

The CHAIRMAN: We seem to have covered "Volume of Freight Traffic". Are we finished with "Review of Financial Results"?

Mr. GORDON: May I make one correction for the record, Mr. Chairman? When I mentioned 98 per cent, I should say that that includes all the awards of the Board of Transport Commissioners. The actual increase up to the end of 1952 is only, nominally, 69.9 per cent. But when I mention 98 per cent, I take it right up to date.

Mr. FULTON: On page 7, under "Freight Rates", in sub-paragraph (2), at the end you say, when referring to this bridge territory between eastern and western Canada—

Mr. GORDON: Yes.

Mr. FULTON: You say:

...the railways are permitted to seek a compensatory subsidy from government up to an aggregate amount of \$7 million per year for both major railways.

To what extent has the Canadian National Railways shared from that benefit in the year before us?

Mr. GORDON: I think we have that. The subsidy claimed by the Canadian National in respect of the last eight months of 1952 amounted to \$1,605,000.

We understand the Canadian Pacific's portion was \$1,672,731. That is the first impact of it.

Mr. FULTON: And just what did you ask for?

Mr. GORDON: That is what we claimed and that is what we got.

Mr. FULTON: Both figures are the same?

Mr. GORDON: Yes. You understand that we get no benefit from that. We get no benefit in the sense that we give up the amount in rates. We are merely made whole.

Mr. FULTON: Would you say that the total is \$3,500,000 as between the two railways, and the maximum which you can ask for is \$7 million. Do you see a time coming when the maximum might be used?

Mr. GORDON: Yes, I think it will. There are only eight months there in 1952; moreover, the policy bearing on the payment of the subsidy is under challenge at the moment.

Mr. FULTON: From what source?

Mr. GORDON: From Canada Steamships and other carriers.

Mr. FULTON: And on what basis?

Mr. GORDON: Roughly they think they should get a share of it. They think they are being prejudiced by reason of our reducing rates, and they believe the subsidy applicable as recommended by the Royal Commission should also apply to them.

The CHAIRMAN: Are you through with your questions, Mr. Fulton?

Mr. FULTON: No. I have one further question. What would result in an increased payment to you? Would it mean simply an increase in the amount of traffic that you carry over the "bridge"?

Mr. GORDON: Well, either that, or an extension of the particular items upon which we are requested to make a reduction of the rates. But that is in the hands of the Board of Transport Commissioners.

Mr. FULTON: But under the present rates the only way you would be entitled to an increase would be by actually carrying more traffic?

Mr. GORDON: That is right. We are supposed to get back in the form of subsidy whatever we give up in the form of rates.

Mr. FULTON: As a concession to the shipper?

Mr. GORDON: That is right.

The CHAIRMAN: Now, Mr. Carter.

Mr. CARTER: I wonder if Mr. Gordon could explain something in respect to the graph which appears on page 10. In that graph the white line is coming down and the black line is going up. Does that have any particular significance in reflecting more favourable trends for the coming year?

Mr. GORDON: No. I want to repeat that this is merely an attempt to demonstrate the extent to which the railways have fallen behind in the race to raise the prices for their services as compared with what all the other suppliers, such as are included in the wholesale price index, have been able to get. The people included in the wholesale price index, the people who

produce the goods and distribute them to the Canadian market, have been able to increase their prices from 1939 through to 1952. That is the way it is shown up in the chart. The index goes to a peak of over 240 per cent. Just now it is about 230 per cent; whereas the price which the railway gets for its services in the Canadian market has risen much less. They have been able to get only an increase up to 43 per cent, with the index being 143.

Mr. CARTER: But now they are beginning to approach each other, are they not?

Mr. GORDON: I do not think you can read that into it. It will depend on our situation in regard costs of material and labour. As Mr. Macdonnell asked me, in regard to general supplies, I felt we had now approached a place where specific increases did not appear to be indicated. But that can change very quickly as it has done in the past.

Mr. BROWNE: In connection with the lines which are operated in the United States, are they governed by American freight rates over there, or by Canadian?

Mr. GORDON: They are governed by American freight rates.

Mr. BROWNE: Do you include them in this list of low freight rates which you have in Canada?

Mr. GORDON: We report on the Canadian National Railways total, and that covers the whole system.

Mr. BROWNE: It would be boosted a little by that factor, would it not?

Mr. GORDON: Yes.

Mr. THOMAS: In effect the material which the Canadian National is buying, if that white line were to continue to go up rather than to go down, would go to the 230 mark as the wholesale prices have? Would that be a fair statement?

Mr. GORDON: That does not necessarily follow. The wholesale price index is more or less a measure of the price of goods going to the market. Included in those goods may be the things which we buy, and some of those prices may be coming down while others may be going up. But as a general rule, our railway supply prices do not diverge very much from the wholesale price index. They would probably be reflected about the same.

Mr. KNIGHT: I want to ask Mr. Gordon about the difference in the rates of haulage charged by the railways on automobiles in different parts of the country. I am thinking particularly about English cars. There are people who think that there is some discrimination against English cars. I do not think it is a purposeful discrimination, but there is a difference in the rates which have to be paid on those cars which are imported from the other side, as compared with cars which are manufactured in this country. I think it would at least clear up the matter if we could put on the record whatever the expression is for the ton-mile rate from, let us say, from Montreal to the middle west, perhaps to my own point, Saskatoon, in comparison with the rate from the point of Canadian manufacture such as Oshawa or Toronto or Windsor?

The CHAIRMAN: Would you prefer to give the answer now or to supply a statement later?

Mr. GORDON: Yes. If I could get exactly what you would like to know, I would have to check on it. I have not got that immediately available.

Mr. KNIGHT: Would you care to offer a word of comment on the matter of the differential, or as some people say, "the discrimination"?

The CHAIRMAN: I think it would be more accurate if we waited for the evidence of the statistician, and then Mr. Gordon might comment on it. I will undertake to see that the point will not be overlooked. I have made a note of it.

Mr. KNIGHT: Very well. Thank you.

Mr. McLURE: Who are the personnel today of the governing body of the railways, namely, the Board of Transport Commissioners? It seems that on every page we read they are quoted as being the supreme authority. Who constitutes the personnel now of the Board of Transport Commissioners?

Mr. GORDON: The Chief Commissioner is Mr. Justice Kearney, The Assistant Chief Commissioner is Mr. Hugh Wardrope. Perhaps Mr. Lessard could name the others.

Hon. Mr. CHEVRIER: Perhaps I could give you their names. There is Commissioner F. M. MacPherson, from the western region; Deputy Chief Commissioner, A. Sylvestre, from the Province of Quebec; Commissioner H. B. Chase from eastern Canada, and Commissioner O. A. Matthews who was recently appointed.

The CHAIRMAN: Are there any further questions on "Volume of Freight Traffic"?

Carried.

Mr. MACDONNELL: In paragraph 11 you referred to the decline in our pulp-wood shipments and you referred to the use of stockpiles as the explanation. I think you have a sentence where you say that other important increases were shown in bituminous coal.

Other important decreases were shown in bituminous coal, lumber, wood pulp and paper products other than newsprint, as a consequence of market conditions.

Can you say a word or two about it so that we can get a picture of what is likely to be the future situation in the transport business?

Mr. GORDON: Yes. Market conditions I would say are referred to generally there, and in regard to bituminous coal they are influenced by the extremely mild weather all through the east. And in regard to forest products, there has been a softening of the market, a general softening.

Mr. MACDONNELL: Where?

Mr. GORDON: It would affect any lumber producing area which is shipping now to world markets. British Columbia would be an outstanding case. Our shipments in British Columbia are affected substantially. There is also a substantial Ontario market, but the main market would be that of British Columbia.

Mr. MACDONNELL: Is it due to foreign competition?

Mr. GORDON: No. They are world-wide. I spoke of a market for forest products in the last year. That has pretty wide economic ramifications. I am just dealing with the advances.

Mr. MACDONNELL: One further point. Could you say anything as to whether we have been losing our relative place in any markets?

Mr. GORDON: No, I do not believe we have in any general way. I see no sign of it.

Mr. MACDONNELL: In foreign markets?

Mr. GORDON: No. As far as I can judge. I do not think we are losing our relative place at all.

Mr. McCULLOCH: There is a serious situation down in Nova Scotia in regard to the small mines and I have a telephone message from the Minister of Mines for Nova Scotia, the Honourable Alex McKinnon, saying that in Westville the mines will likely have to be closed down if they do not get assistance from the C.N.R. And I have also a telegram from the Honourable A. B. de Wolf. in which he states that the mines at Westville would probably have to close failing assistance from the C.N.R.

Now, the town of Westville has a population of between four and five thousand people and the only industry there is the coal mines. During the last war the Westville mine gave the C.N.R. practically all their output at a price much lower than they could have sold it to individual customers and I think it would only be fair for the C.N.R. to take same interest in the Westville mines, even if they had to buy 100,000 tons less from the United States mines and give it to the small operators in Nova Scotia who helped the railway to keep going during the war. The C.N.R. during the last war used coal from the small mines in Nova Scotia and I think they should be congratulated on the way they handled the freight, the troops, and the passengers during the war. And they used all of the coal they could buy from the small operators down there and I do not see why they do not buy coal from the small operators now. I know what the answer will be—the coal is not suitable. But, if they could use the coal during the war, they can certainly use the coal now in order to keep a small town like Westfall going with about 300 miners who will be out of jobs. I think the least they can do is give small orders to the small mines. I think Mr. Gillis could vouch for that as well as myself.

Mr. GORDON: Mr. Chairman, I certainly do not like to find myself in the role of appearing to be a hardhearted person putting people out of employment, but I know of no authority that exists in the Canadian National Railways to accept the responsibility for keeping any particular industry alive by providing a subsidy above market price. Our position is we buy all the acceptable Canadian coal offered to us at the present time if the cost is competitive with the United States' coal, and when I say the cost is competitive I am making allowance for any subventions which may be provided by any authorities for the purpose of making Canadian coal competitive.

In some of the mines there is definitely a question of acceptability. We have situations where the coal is of such poor quality it will not move our locomotive from one coaling point to another.

Mr. McCULLOCH: Did that happen during the war?

Mr. GORDON: I cannot answer that specifically, but I would judge that the coal made available during the war was not necessarily the same coal being produced today. We have every desire to buy Canadian coal. We bend over backwards to buy Canadian coal, but we cannot buy coal that will start a locomotive off and will not take it to the other coaling point making it necessary to send another locomotive to bring it back.

Mr. McCULLOCH: Have you had that happen?

Mr. GORDON: Yes. The coal has to be acceptable in the sense it will meet the performance requirement and secondly it must be competitive with other coals provided elsewhere. I have some figures. Here is the basic difficulty with the Maritime coal situation: The fact is the mine head cost of Sydney lump coal is \$9.30 a ton. The mine head cost of United States coal, of generally better quality or better than the Sydney quality, is on the average, only \$4.14 a ton. Now when you start off with such a fundamental difference there is your trouble. We add to United States' coal the cost of hauling to the border, the duty and all the other factors and then compare that with the Maritime Provinces' coal with our bare cost of hauling to the consumer point, and if we get a differential in favour of the United States coal we buy United States coal. We get differentials that run as high as \$3.39 a ton in favour of American coal laid down in New Brunswick.

I cannot see for the life of me how I could be authorized to provide these coal mines with what is to all intents and purposes a concealed subsidy. I am not authorized to pay subsidies. There was a time I did. But I am not going to undertake to pay subsidies through the Canadian National Railways. I am perfectly willing to say I will bend over backwards and defend myself

against criticism if need be to buy Canadian coal, but I would be open to very sharp criticism for using moneys in that way. It is not my job to pay subsidies. If there are going to be subsidies paid to any industries I suggest it is the responsibility of the government and should go to the floor of the House of Commons.

Mr. GILLIS: I do not agree with Mr. Gordon's statement. Mr. McCulloch made an appeal on behalf of the small coal operators in Nova Scotia. Mr. Gordon gave us a general survey of the whole industry. Now, the small operators visited Ottawa here a few weeks ago and the basis of their complaint and what created the immediate problem was the dieselization program. The coal Mr. Gordon says will not pull a train has been used by the C.N. for many years. Practically the only market the small operator had was the market which dieselization has practically wiped out. I think the matter can very easily be resolved. I asked a question whether the C.N.R. was importing American coal and if so what was the tonnage. I got an answer on March 16. For 1951 the C.N.R. imported 4,617,317 tons of coal and in 1952 they imported 3,675,589 tons of coal. In the small places Mr. McCulloch is talking about there are only employed 1,500 people who have an investment in these small communities. Most of them are located not too far from New Brunswick. There is nobody can tell me that if an operation like the C.N.R. is importing that amount of American coal and stockpiling considerable of that in New Brunswick and in Quebec, that the Canadian National Railways could not hold back a very small fraction of their import from the United States and use the coal of the small operators in Nova Scotia and New Brunswick on the C.N.R. until such a time as a solution can be found for that problem. It is not a very big one. I do not think it necessitates subsidies. If it does then you are correct in saying the House of Commons should take care of it.

Mr. GORDON: If the price we have to pay for that coal — I am leaving aside the question of unsuitability — if the price we have to pay for that Canadian coal is substantially greater than U.S. coal would you not agree that is a subsidy.

Mr. GILLIS: Yes, certainly. And I would say you are justified in paying it.

Mr. GORDON: I have no authority to pay subsidies.

Mr. GILLIS: I know. But, Mr. Chevrier will take care of that.

Mr. GORDON: No authority can be given to me in law unless it is a law passed by the House of Commons.

Mr. McCULLOCH: Could you not pay small operators the same price as Sydney coal?

Mr. GILLIS: You figure pit head coal \$9 as against \$4.14 in the United States. Are you taking the average cost of coal produced in Nova Scotia? Dominion Coal Company mines are high cost. They produce coal by submarine long hauls and they are going through a mechanized program. If you had figures for small operations you will find there is a big difference. I do not think their cost adds up to that.

Mr. GORDON: I have the prices of our Canadian mines here and I can give them to you. I do not think it is fair I should mention the mines. Of the five mines listed here they range from \$9 to \$9.30 and a high of \$9.60. There is only one at \$8.75. All the others range from \$9 and the top is \$9.60.

Mr. GILLIS: Have you got a figure for that Drummond operation? Inter-colonial.

Mr. GORDON: The price is \$9.

Mr. GILLIS: Do you not think it is reasonable, say for a period of time to pay that? This was brought on pretty suddenly.

Mr. GORDON: This situation in regard to the maritime provinces coal has been under discussion for many many years and you have had ample warning as to what was likely to take place.

Mr. GILLIS: The problem of the small operators Mr. McCulloch makes his appeal for, came on because of diesel engines which replaced coal. Is it not possible to have any mined coal produced there for a year or so by holding back some of your imports from the United States?

Mr. GORDON: If you can tell me what justification I have to pay to Inter-colonial—if that is the one you are talking about—higher than the market price for coal and refuse to do so for other purchases, then I might see some merit in it.

Mr. GILLIS: Do you say that it is the high cost of coal that prevents marketing coal with the C.N.R. and not the installation of diesel engines?

Mr. GORDON: It may be.

Mr. GILLIS: They do not say so.

Mr. GORDON: It does not necessarily follow. I am giving you the facts. I have no other purpose to serve. I am giving you the truth. The Canadian National Railways will buy all the coal that is being mined in the whole of eastern Canada. If they are prepared to offer us acceptable coal we will take all they can produce provided they can lay it down at the coaling point at a price competitive with United States coal. We have a need for coal in the provinces of Ontario and Quebec right now, and for many years to come, far greater need than the total production of these mines if they can get their costs comparable at the coaling point. That is the only point at issue.

Mr. GILLIS: Then the position is I take it that as head of the C.N.R. as far as you are concerned, it is a matter of dollars and cents, and there is no solution, as far as you are concerned, and that now it goes to the government as a matter of subsidy.

Mr. GORDON: I have no views to express as to how the price is determined of coal that is delivered to me as long as it is comparable with United States coal, but I can assure you we will give Canadian coal mines every possible break in the matter of differential.

Mr. McCULLOCH: What can you land American coal at Moncton?

Mr. GORDON: They all vary but I can land Moncton coal at \$12.33.

Mr. BROWNE: From where?

Mr. GORDON: From the U. S. coal minehead in this particular instance.

Mr. BROWNE: Any spot you have in mind?

Mr. GORDON: I do not want to mention names, but I am dealing in averages.

Mr. BROWNE: Carried on train or steamer?

Mr. GORDON: By train.

Mr. BROWNE: It would be from Pennsylvania. You can tell us that.

Mr. GORDON: I have not got enough information. I would need more analyses, and I am taking this for the purposes of example. Each case is analysed, when we have coal offered to us, to see whether or not we can buy shipments of United States coal delivered in Moncton at certain prices, but I am just giving as an order of magnitude the average price of the United States coal at minehead as \$4.14 a ton.

Mr. BROWNE: And that include the whole system?

Mr. GORDON: It includes coal we purchase from the United States regardless of origin.

Mr. BROWNE: But from Pittsburg to Detroit or Windsor is a very short haul, but you take the long haul from Pittsburg to Moncton.

Mr. GORDON: It does not matter. The point we are concerned about is the price at which we can buy coal delivered laid down in Moncton, and we do not care where it starts from. If we can buy American coal starting from any point, and charge that coal with factors such as duty and haulage cost, and lay it down in Moncton at a price substantially below at what we can get Canadian coal, then that is the comparison we make.

Mr. GILLIS: You are only dealing with coal that goes to Moncton.

Mr. GORDON: In this particular example. We also have coal, say, at Mont Joli. We have coaling points in western Canada. But when we talk about coal supplies, we talk about the price we are prepared to accept at the point of delivery. We do not care where it starts from, so long as it is of comparable quality. Our test of whether or not we will buy that coal is the laid down cost at the coaling point regardless of origin.

Mr. CHURCHILL: \$12.39 at Moncton.

Mr. GORDON: The example I have taken is \$12.33 compared with for example from Sydney coal mines after allowing for various factors of about \$13.04.

Mr. GILLIS: You have landed it for less than that from Westville.

Mr. GORDON: Yes, that would be so, and we take that into account.

Mr. GILLIS: Why are they not marketing that coal? Why is that mine threatened with closure?

Mr. GORDON: We do use Canadian coal, but we can buy United States coal much cheaper that we can buy Canadian coal at some points in Nova Scotia and New Brunswick.

Hon. Mr. CHEVRIER: I think you had better put the figures on the record of how much Maritime coal is being bought.

Mr. GORDON: Here is a statement of purchases last year—it is distinct from consumption. We bought, 734,085 tons of eastern Canadian coal. Of western Canadian coal we bought 797,291 tons; that is a total of 1,531,376 tons of Canadian coal. The total cost of that was \$13,230,207.

Mr. CHURCHILL: What is the comparison with the preceding year?

Mr. GORDON: In 1951 we bought eastern Canadian coal 1,043,085 tons. Western Canadian coal we bought 691,962 tons, at a total cost of \$13,780,063. In other words the dollar cost is about half a million dollars less in 1952 than it was in 1951.

Mr. CHURCHILL: What is the difference in volume?

Mr. GORDON: In the volume is a drop from 1,735,000 to 1,531,000 tons—roughly 200,000 tons.

It may be of interest to give the United States coal figures. I might as well give it. The situation there is that the consumption of United States coal has fallen very substantially because again the use of oil both for diesel and oil burning steam locomotives in the west is steadily increasing. These figures are based on actual purchase invoices passed; we have bought in 1951 from the United States 5,239,419 tons and in 1952 we bought 4,265,209 tons.

Mr. GILLIS: They are out quite a bit. The figures from the department were for 1951 4,617,377 tons and in 1952 they gave me 3,765,589 tons.

Mr. GORDON: But you asked for imports.

Mr. GILLIS: Yes.

Mr. GORDON: Well you did not ask for the right thing.

Mr. GILLIS: These are purchases.

Mr. GORDON: You could not buy it in this country if you did not import it, but there is a time lag between imports. We have been very carefully trained to answer exactly what we are asked for.

The CHAIRMAN: On this coal question, I think the committee has listened to it perhaps quite as long as we should, and I suggest if there are any further questions, they should be in writing and they will be answered in writing. Freight rates—

Mr. BROWNE: A question on number four there. Could you give any information on that. There are no figures given there.

The CHAIRMAN: Point four, no. Freight rates, page 7.

Mr. GORDON: This is, I will just have to confess, a very complex technical matter and it does not amount to a hill of beans in terms of revenue. It is a slight increase, but it does not amount to anything important. It is a technical adjustment. I could give you precise details.

Mr. BROWNE: As long as it is not substantial.

Mr. GORDON: No.

The CHAIRMAN: Freight rates carried? Passenger traffic?

Mr. CHURCHILL: On paragraph 3, what is meant by "parallel action by the Interstate Commerce Commission." What bearing has that?

The CHAIRMAN: Where is that.

Mr. CHURCHILL: Subparagraph 3. "These orders followed parallel action by the Interstate Commerce Commission in the United States."

Mr. GORDON: They did the same. The international rates affected both of us and they issued the same order as we did.

Mr. CHURCHILL: Is that always done?

Mr. GORDON: Yes, it has to be done, otherwise you get a difference in the overhead traffic.

The CHAIRMAN: Freight rates carried. We have reached the adjournment period.

Mr. MACDONNELL: I have one or two questions with regard to 15.

The CHAIRMAN: Perhaps we can clean that up.

Mr. MACDONNELL: It is a question of rates equalization which I would like to hear from Mr. Gordon on.

Mr. GORDON: I would like to say this about freight equalization, that the subject is under investigation by the Board of Transport Commissioners and hearings are being held all across the country. Naturally I would be reluctant in expressing an opinion here. It is really under trial by the court. As it stands now everybody concerned can express their opinion before the board. We will in due course make a submission to the board and so will the C.P.R.

Mr. MACDONNELL: Can you enlighten us about the problem without giving your conclusions on it. The scope and size of the investigation. Can you do that.

The CHAIRMAN: We will adjourn until 3.30.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Macdonnell, you were asking some questions with regard to the equalization of freight rates and Mr. Gordon indicated that the matter was more or less *sub judice*. Would you like to make a comment?

Mr. GORDON: I might make a comment, Mr. Chairman.

Mr. MACDONNELL: I say this with great deference, Mr. Chairman, but I did have the feeling this morning that perhaps we were being a little hurried. I regard this committee as having a tremendous responsibility.

The CHAIRMAN: I think we all do, Mr. Macdonnell, and if I have been hurrying you in any way, I apologize.

Mr. MACDONNELL: I hope you won't think me a problem, yet I find these things very difficult and perplexing and I cannot grasp them very quickly. Consider this question of equalization. I cannot help but feel that Mr. Gordon considers it a pretty complicated thing to talk about. Nevertheless I do feel there is a tremendous principle here. I have looked at the Turgeon report in the interval and I wonder if the witness could not give us an understanding of this matter because it does seem to me that it is a vital difficulty in our whole freight rate structure.

Hon. Mr. CHEVRIER: May I say this with respect to that problem: We have carried out the recommendations of the Royal Commission on Transport. We have put into effect by way of an Act, an amendment to the Railway Act, and we have given directions to the Board of Transport Commissioners under Order in Council 1487 to go about the equalization of freight rates. The board is proceeding by way of study and investigation under the legislation, first of all, passed by parliament, and secondly, under the direction given to them by the Order in Council. It is pretty hard to answer a question of what is going to happen when they are studying that very thing. So I think I should interject at this point that the board, as Mr. Macdonnell knows, have set Vancouver, Regina, Edmonton, and all the provincial capitals, including Ontario and Quebec, as places where they should invite the public to come and make representations on this very issue. To what extent we can go into that I do not know. I do not think we could go into it in detail other than in a very general way.

Mr. MACDONNELL: I bow to you, and if Mr. Gordon feels there is nothing that can usefully be said, I shall not persist in my questioning.

Hon. Mr. CHEVRIER: I would not like to see the problem interferred with at this time because I consider it of such importance, particularly to the extremities of Canada which are suffering from these economic, climatic, and geographic difficulties which they complain about.

Mr. CHURCHILL: Are you speaking about equalization of freight rates or about the problems generally?

Hon. Mr. CHEVRIER: I refer to the two problems: the problem of equalization referred to in the legislation adopted by parliament, and also to the investigation which the board was ordered to make by the government. I refer to both of them together.

Mr. MACDONNELL: Well, Mr. Chairman, if Mr. Gordon thinks there is nothing that can usefully be said by way of comment on the situation, I shall not press it.

Mr. GORDON: I think I may make a comment on it, in order to set it in perspective, which will indicate the nature of the problem. I take it that is what you are really interested in?

The nature of the problem first of all is this: the railways are in agreement with the general principle that there should be equalization of freight rates, that is to say, on the general idea that so far as practicable every part of Canada should pay the same rate for movement of the same specific commodity from one point to another. But it must also be kept in mind that whatever is done in the matter of equalization of freight rates as between one section of Canada in comparison with another should not and must not operate to reduce the over-all revenue of the railways. They cannot afford it.

The problem before the country, then, is how you can give everybody something and take nothing away from anybody. I have never been able to solve it. But as a means of getting it before the board, the board has set up certain specific rates which will come into effect on January 1, 1954. But as I stated in the report, the board particularly stated that they were setting down a scale in order to provide an opportunity, to give something concrete, whereby all across the country every person with views on the subject will have something to focus his attention upon and will be able to argue against something concrete in respect to the first scale of rates which the board has set down. These rates are not put into effect, nor will they become effective until the board has held hearings all across the country.

You cannot give something to everybody and yet take nothing away from anybody. Also, because of economic conditions in various parts of Canada, you will have certain exceptions no matter what equalization may be done. As it is now with competitive rates and things of that kind, one must be guided by economic factors in a given area. That roughly sets out what the problem is.

Everybody is against sin, but what are we going to do about it?

Mr. MACDONNELL: Leave it for other people.

Mr. GORDON: That is right.

Mr. MACDONNELL: I think you have stated it very dramatically, Mr. Gordon.

Mr. GORDON: That is the core of the problem. That is what the board is trying to study now and they have started off in what I think is a practical approach of the problem. They have set down for examination a scale of rates just as a means for every interest in the country to appear before the board, including the railways and the other shipping interests in the country. They will be invited to come before the board and talk to the subject.

Mr. MACDONNELL: Are these two requirements, first of all, that the railways shall not get less? Is that the first part of it?

Mr. GORDON: That is part of the problem which the railways would point out, that they cannot survive with an over-all average revenue return of less than they are earning now. I think the report justifies it.

Mr. McLURE: How about the consumer and the producer. How is he going to survive if he has got to pay all the shot?

Mr. GORDON: In the same way that he must survive in paying the price for any other service that he gets. He has to pay rent and he has to pay for his heating the same as everybody else. Railway freight is simply a service the same as any other service that he might require in order to exist.

Mr. McLURE: In your railway traffic do you take in truck traffic as well as railway traffic in coming to your volume of freight?

Mr. GORDON: Our revenue figures include revenue from every source, from trucking or anything else.

Mr. McLURE: Has your truck revenue increased year by year in comparison with what you considered it would when you went into the trucking business?

Mr. GORDON: I have not got before me the actual figures, but trucking in relation to our railway freight revenue is negligible. It is very small. That is, our own earnings in trucks that we own are very small in relation to over-all railway freight.

Mr. MACDONNELL: You have come to that in connection with some of the statements about new equipment?

Mr. GORDON: Yes.

Mr. MACDONNELL: One other question under the heading of equalization. Do I understand that it is recognized that in making these rates the board has to have regard to the hard facts of competition?

Mr. GORDON: Quite so.

Mr. MACDONNELL: Then may I ask a special question about a thing which we have heard so much discussed a year or so ago, and that was the rates to the coast in comparison with the rates to Alberta and other points in the prairies, and that was by reason of meeting water competition?

Mr. GORDON: We are compelled to do that.

Mr. MACDONNELL: Does that still stand out as one of the recognized factors?

Mr. GORDON: I would say that in the course of examining what can be done to achieve equalization, and in discussing equalization of rates, local economic conditions or local industrial conditions will remain a factor in this country. Let me put it this way: After all, water compelled rates are simply competitive rates, and either we give up the business or we meet the rates. We as a railway must make that decision every day in the week, whether it is in connection with a truck, a ship, a pipe line, or anything else, or any other form of competition. We must meet it. We are in the most fiercely competitive business in the world and we have to make decisions every day in connection with our rates.

You see, the principle is that in general freight rate cases the Board of Transport Commissioners is really setting a ceiling on rates. They are setting the rate this far and no further. Now, we can operate underneath that rate or we can go up to it in many cases, you see. But if we find that we are at the top of the rate and we cannot get the business, we have to begin to figure out if it is to our advantage to come down, and we finally reach a point where we have to decide whether it is a compensatory rate or not. If we go below a compensatory rate, and then if anybody alleges that we are quoting a rate which is below our cost, that person can go to the Board of Transport Commissioners and complain that we are being unfair to him.

We are the only outfit in the country which is under that obligation. We cannot go below a compensatory rate because of complaints.

Mr. MACDONNELL: You have both a ceiling and a floor?

Mr. GORDON: That is right. We have to prove that any rate is compensatory at any time, should anybody appeal against it.

Mr. MACDONNELL: Just what does compensatory mean? I remember having had something to do with a manufacturing concern and there was always an argument that one department lost money. And they always argued that they contributed so much to the overhead that they did not lose money. So how is compensatory arrived at?

Mr. GORDON: A compensatory rate is a rate which takes into account the nature of the business, the out of pocket cost in respect to upkeep of equipment, labour and so on in the operation that we put in, and a share of the overhead.

Mr. MACDONNELL: What is that last? The other things you mentioned were operating things?

Mr. GORDON: Yes.

Mr. MACDONNELL: What was that share of the overhead?

Mr. GORDON: It would cover everything and it is a very complicated thing to get at. It is not something I could attempt to be an expert about. We have a very efficient bureau of economics which analyzes these figures, and when they are challenged, they appear before the Board of Transport Commissioners. And the board also has competent experts who examine these figures. And we demonstrate how we arrive at a compensatory rate.

Mr. MACDONNELL: Your company may have very different ideas about how to determine a compensatory rate.

Mr. GORDON: That is right.

Mr. MACDONNELL: Can anyone challenge it?

Mr. GORDON: I think that is the law.

Hon. Mr. CHEVRIER: It is in the Transport Act.

Mr. MACDONNELL: But who in practice does challenge it?

Mr. GORDON: In practice it can be challenged by any shipper. Let me give you a concrete example. We try at times to make what are known as agreed charges. We will make a bargain with a given shipper according to which the shipper will undertake to ship a certain percentage, or all, of his shipments via Canadian National, and in return for that promise we will give him a special rate.

Now, a trucker might come along and say that we were quoting a rate which was below our cost and that in doing so we were putting that trucker out of business. So you see, if we answer the trucker's competition by putting in an agreed charge, then a shipper may go to the Board of Transport Commissioners and say that the railway is using its position because they can survive longer than he can, to put him out of business.

Mr. MACDONNELL: Have you the same right as against the trucker?

Mr. GORDON: No. There is nobody to go to in connection with the trucker.

Mr. GILLIS: And that line of action cannot be taken against the Canadian Pacific Railway.

Mr. GORDON: Oh, yes.

Mr. GILLIS: I thought you said you were the only people in Canada.

Mr. GORDON: I am sorry. I tend to regard myself as the only railway. I was thinking of the railways.

Mr. MACDONNELL: You were ignoring the Canadian Pacific this morning.

Mr. GORDON: I simply said that I could not speak for them.

Mr. MUTCH: Are you sure?

Mr. MACDONNELL: Yes.

Mr. MUTCH: A moment ago you were speaking of fixing these Pacific coast rates and a question was asked whether or not the water rate was a consideration in fixing those Pacific Coast rates. Do you really suggest that water competition between Montreal and Vancouver is in fact competition at all? And if you do so suggest, have you any idea what tonnage is available to the public?

Mr. GORDON: I am afraid that you are getting me not only into water but very deep water in that respect. I cannot speak as an expert on freight rates. I can only deal with general principles. But generally speaking water compelled rates are the rates which we have to meet in regard to these transcontinental rates. Every case has got to be judged on its merits; every case has to be judged on the facts. We have had to put in rates which will compete with rates for goods being shipped from Britain by boat to Vancouver.

Mr. MUTCH: That is understandable.

Mr. GORDON: Yes. The other day we discussed a rate which was in connection with iron pipe, or something like that, which could go by boat against us and be delivered in Vancouver at a better rate. So you see, each one of these things has to be considered specifically on the facts of the particular case. I do not think it applies today, but there was a water compelled rate in regard to a movement where ships would come out of Vancouver harbour and deliver lumber right to Montreal or Toronto via the Panama Canal. In that case the railways had to decide whether or not to meet that rate.

Hon. Mr. CHEVRIER: That is why the transcontinental rates are so low.

Mr. GORDON: That is exactly the case.

Hon. Mr. CHEVRIER: If the transcontinental rates were increased the shipping companies would come in.

Mr. MUTCH: That is a very interesting suggestion which we have had given to us over and over again. But I for one treat it with no regard because I have been at some pains to discover what is available in the way of competition by ships.

Mr. GORDON: At the present time it is very little.

Mr. MUTCH: Yes, at the present time it is very little, and the railways are sitting in the beautiful position that if anyone be fool enough to invest money in ships—it would be probably more expensive to procure ships today than rolling stock,—before those ships could be constructed, you could put them out of business by shifting the rates.

Mr. GORDON: That means of course that everybody is allowed to be competitive except the railways.

Mr. MUTCH: That has been argued time and again with respect to that particular matter, but I think the argument could be used both ways. To say that these competitive rates are water compelled from Montreal to Vancouver, I think, is a phoney. I wonder what you think about it.

Mr. GORDON: I do not know what you mean by the term “phoney”?

Mr. MUTCH: I do not think these are competitive rates at all. I do not think they have any potential or real competition.

Mr. GORDON: I beg to differ with you there. I know from actual experience gained long before I got in the railway business that there was a time when shipping carried a great deal of lumber from British Columbia, for instance, and other goods, and brought it over through the Panama Canal and delivered it in the ports—note the word “ports”—of Montreal and Toronto. What has been done before can be done again. Economic factors have a habit of changing from time to time. Nevertheless, what has been done once in that respect can be done again, and it will be done again—in my opinion it will be done again if this trend of constantly rising prices continues. That is something along the lines of what we have been discussing this morning, that there will come a time when we will price ourselves out of that market, too. Merely because at a given point today the shipping companies are not able to do what you suggest does not mean that it will remain that way forever. Take the St. Lawrence Seaway for an example.

Mr. MUTCH: If they offer you competition, there is nothing to prevent you from pricing yourself back into it.

Mr. GORDON: Yes, that is right.

Mr. MUTCH: And you have that hold over anybody who would be rash enough to invest capital in shipping.

Mr. GORDON: I do not know about that. Here is an advertisement which has just been handed to me which shows a Canadian intercoastal service, between Montreal and Vancouver via the Panama and United States ports. Here is a steamship service available to you right now operated by Saguenay Terminals. There is no doubt about it, the competition is there, but whether at the moment they can give us effective competition is a point. It all depends on what we are able to do.

Mr. GILLIS: The St. Lawrence Seaway will put you out of business then?

Mr. GORDON: No, I do not believe that. It is generally thought that the St. Lawrence Seaway will generate enough in the way of industrial power that it will develop Canada in a way the railways cannot help but benefit.

Mr. GILLIS: That will be just from Montreal westward.

Mr. GORDON: We are all going to get our share of the business if we are efficient and can meet the competition.

The CHAIRMAN: Any further questions?

Mr. MACDONNELL: Mr. Gordon, you raised the subject of the St. Lawrence Seaway and made an interesting observation about it. It is a matter of very great interest. How much diversion of your line, of your main line, from Montreal to Prescott will be involved through the construction of these works?

Mr. GORDON: It starts right outside Cornwall, mostly.

Mr. MACDONNELL: You are not going to submerge Cornwall, are you?

Mr. GORDON: No, it is in the area west of Cornwall. The flooding of the land will affect about 35 miles of the railways. That is the way it looks to us at the moment.

Mr. MACDONNELL: How far back will your main line be moved?

Mr. GORDON: Upwards to a maximum of four miles.

Mr. CHURCHILL: I would like to ask Mr. Gordon one question about this general problem of freight rates. Are you prepared to forecast the future with regard to railway rates? You mentioned the fact that it is the most highly competitive business in the world, this business of transportation. You pointed out that for every application for increase of freight rates there was a resultant loss of business, or the danger of a loss of business, and yet there is the constant demand for increases in freight rates in order to allow the railways to function. What do you see in the future?

Mr. GORDON: Well, that will depend on the balancing of the forces, so to speak, because the facts which are raising our costs are also applying to our competitors. Our competitors are paying higher wages and higher prices, too, and it depends at any given time how that balance is maintained. A further factor as I mentioned this morning, is not only the diversion of traffic which we might lose by pricing ourselves out of the market, but it is a question of a traffic that might be killed; it is the actual business which people will not go into because of higher costs, because they cannot find a market for the product. That is a dangerous thing from the standpoint of the national interest, in my opinion. Canada is a country heavily dependent on exports, as we know, and is one of the major trading countries of the world and if we do allow our costs to get to a point where we become non-competitive in foreign markets, then we are going to have real trouble and there may be certain producing industries which will suffer very seriously as a result.

Mr. CHURCHILL: How do we prevent that?

Mr. GORDON: At what point we get to it, I could not tell you. How do we prevent it? The old way of preventing anything is, in my experience, self-discipline.

Mr. MACDONNELL: You ought to discipline someone else?

Mr. GORDON: I have had enough of disciplining other people.

Mr. CHURCHILL: What do you mean by self-discipline?

Mr. GORDON: That of the various interests involved, and I do hope that I am not conveying the idea that I am anti-labour. I believe that labour is worthy of its hire, but with labour as with any other interest, various groups have got to determine what is in their own best interests and whether or not they are killing the goose that lays the golden egg. There will come a time when rising costs, if not stopped by our own collective decisions—it is not a matter of government, it is the collective decision of all the people—will lose markets. It may be that we have reached a stage of equilibrium at our level of economic activity and that that is where we must stay for a

while. We are in Canada under the most active and obvious competition from the United States, to give an example. Now we must keep our costs of our goods for sale in the market or in markets where we meet United States competition—we must keep them relative or we won't sell our goods. Our producers, I do not care whether they are agricultural or manufacturing, or what they are—our producers who have articles for sale in the United States market must obviously meet United States competition. Now, the United States can bear a level of wage rates, for example, that we cannot. That may be one of the economic factors. They have a terrific volume. We have not reached the stage of economic development as a country to compare with the industrial United States, yet we are getting up to the point where we have to watch ourselves to see that we do not become non-competitive.

Mr. GILLIS: Where would you suggest to make a start on that? I agree with your statement, but where do you think a start should be made on that?

Mr. GORDON: We got into bad habits during the war of assuming that some centralized authority could tell people what to do, and I did it with great effect for a while, but it was a bad habit. It is not the way that a democratic society can operate. The judgment I am referring to is the collective judgment of everybody in business, and the only way that it will work, in my opinion, is by the method of trial and error. We can only try and go so far. Now let us take the coal mines, for instance—

Mr. GILLIS: Why not start at steel?

Mr. GORDON: Start at steel, then. Exactly the same thing, so long as we can produce steel in this country that will meet our own domestic needs and compete with other people who provide steel, then they can increase the prices of their product and the wages so far as the traffic will bear, but when there comes a time when the product cannot be taken by the market, I suggest that the steel producers and all the forces in it — labour, management and otherwise — will have to take another look at the situation to determine whether or not they have gone too far.

Mr. GILLIS: Don't you think that the steel companies in this country should expand their plants and take steps to offset American imports?

Mr. GORDON: I do not know enough about the steel business to know whether they can do it, whether they have the efficiency or capacity to do that.

Mr. GILLIS: It is up to them to provide the capacity. The government made an offer to them that it would provide a dollar for every dollar that they put in to increase capacity.

Mr. GORDON: They might think the risk is not worth while. Remember this is a private enterprise economy.

Mr. GILLIS: As long as we are dependent on the United States for our steel and coal and other things, we are going to stay in that position, too.

Mr. GORDON: The United States are dependent on us for a great number of basic materials, too. You would be surprised to see how much the United States is dependent on us for basic materials. In my opinion we could do better if we processed them here, but you see there are two sides to the medal always. You cannot always go down one road.

Mr. GILLIS: As long as we sit idly by in this country and depend on the United States to supply us the finished products, that is not building Canada and will keep us in the economic doldrums.

Mr. GORDON: Just sitting idly by? There is nothing in this country that I know of to prevent any group of individuals, at any time they want to

put their capital at risk, from organizing themselves together and starting a manufacturing plant to use any of the basic materials they want to use. There is nothing to prevent you and me from doing that, Mr. Gillis, except that our capital won't be sufficient. Any group of enterprisers in this country are perfectly free to gather together, to get all the people they can to put their money together and start a manufacturing plant.

Mr. GILLIS: That is good theory but it does not work out in practice.

Mr. GORDON: It certainly does. Look how this country has grown.

Mr. GILLIS: Mostly on American capital.

Mr. GORDON: The figures do not support you in that. We have exported a large amount of capital to the United States, just as the United States has sent a lot of capital to us. It is a kind of give and take proposition.

The CHAIRMAN: This is a very interesting discussion, but I really believe it is not within our order of reference.

Mr. GILLIS: Well, Mr. Gordon raised it. He said everyone has got to come collectively to fix this thing up. That is where you have to start. I got the impression that he thinks labour in this country should say, "We are not going to demand any more increases in wages and are going to stay right where we are".

Hon. Mr. CHEVRIER: He did not say that.

Mr. GILLIS: No, not in those exact words; he did not say that, but I asked him where should we make a start and I think that a good start on this situation can be made by the steel people in this country, the steel manufacturers. They were given an incentive by the government that for every dollar they put into increased capacity, the government would match them dollar for dollar. Still they did not take advantage of it.

Mr. GORDON: The only thing was, it was not enough of an incentive. We have had an astounding development of industry in this country in the last ten years. Some part of it was due to government aid, and others to private enterprise. It was in effect a combination of several factors. But there is nothing to stop anybody in this country doing it. There is nobody saying, "You must not organize, you must not risk your capital".

Mr. GILLIS: If the government offered me to match dollar for dollar every dollar that I put into a business, as an individual, I think you would find a lot of people in this country who would take advantage of it, but that offer was made directly to steel manufacturers. It did not apply to everybody. If the government would underwrite your losses in housing such as they do for the insurance companies, you would find a lot of people in this country going out and forming a company to build houses.

Mr. GORDON: I remember some years ago a man coming to my office to discuss with me about making investments in Canada and I was cagey about giving advice because I felt he should make his own decisions. After some discussion he said in a rather broad Scottish accent: "Mr. Gordon, I fully understand one of the functions of capital is to be lost, but I am trying to find a place to lose it as gradually as possible."

The CHAIRMAN: Shall freight rates carry?

Carried.

Mr. GILLIS: You should have told him to put it into housing.

Mr. McLURE: Mr. Chairman, this was a kind of general discussion on freight rates and a very interesting one, indeed. There is one item that I would just like to mention. The only two provinces in Canada that are not squealing about freight rates are Ontario and Quebec. There is a way out of

that. They can bear part of this cost if they were approached by the government and the railways and put in a position that there shall be put into effect a stamp freight rate agreement. Some of the large concerns have that rate today. If you put into effect a stamp rate nobody will lose. The railway will get what they are getting out of it. The buyer of an automobile in Ontario gains by it. Presently he gets it \$135 cheaper than the consumer or buyer in Prince Edward Island. I believe in this stamp freight rates Act, if we could get a proper one going, even if it was only one-sided for the time being, to start off with. There are certain companies today shipping all their goods freight prepaid to destinations, so that a buyer in Prince Edward Island can buy his supplies just as cheaply as the buyer in more central provinces, or the buyer living next door to the factory. Now, there must be some plan there that we can get Ontario and Quebec to help pay. A good deal of our money from down east goes into these two provinces. If I was to tell you how many millions of dollars worth of goods we in our little province buy from Ontario and Quebec you would not believe it, but just the same that is one way, and they could not turn it down—coming from the railway or government they could not turn it down, because they could not afford to lose trade and they would be losing it. The only thing is they are making the people of Ontario—the easterners—all those paying freight in Ontario are supporting others making that profit, and why should they not pay part of the freight, and pay it under—what is it termed—the Stamp Freight Rate Act. They have it in the United States.

Mr. GORDON: My short comment on that is that I imagine the people of Ontario have some views on it, and that is exactly the sort of thing the board of transport will listen to. They will listen to points of view from transport and shipping interests, and they will be sitting in Charlottetown and there will be every opportunity for all interests in every section of the country to express their views to the board.

Mr. McLURE: Because in the United States there are five of the largest firms in the world that ship all their goods under the Stamp Freight Rate Act.

Mr. MACDONNELL: Mr. Gordon, this morning I asked you how you were able to get along with lower freight rates than the United States, and you said the simple answer was you were not getting along as well as you would like, and we rather dropped it there. I would like to know a little more about the freight rate situation. Could you indicate to us some of the operating figures of the American railways so we can get a comparison and can you also indicate whether the fact that we are able to do as well as we do do with smaller rates in this sparsely inhabited country is due to the additional amount of long haul, or what it is.

Mr. GORDON: I will be glad to get the figures, but let me say that I believe --although I do not suppose everybody will agree with me—that the Canadian railways taken as a whole, by reason of the fact that we have two major trans-continental lines are able to avoid some of the operating terminal complexities that arise with a great number of lines as in the United States. That gives us, over all, a more efficient through operation. For example, just a couple of years ago we started an intensive examination of our terminal congestion which proved quite remarkable. We found that if we started in to schedule or marshall a train which was going say from Winnipeg to Halifax, that if we started in at the point of origin, namely Winnipeg, and marshalled the train so that all the through cars would be in a block, we could save a great deal of money in switching at intermediate points. When the train arrived in Montreal or Toronto it was all of one kind. In the United States you would find a given train of say 70 or a 100 cars and they might have to use that switch engine 30 or 40 times to sort the cars out at the terminal point to get

them to their destination. In the United States, with numerous railways, one railway arrives at a terminal point and does its job and does not give a hoot who takes over, but in the trans-continental system we can issue instructions to Winnipeg, and say, now you see to it that all the traffic for Halifax is properly marshalled. I think Mr. Dingle, as vice-president of operations, could say a word on that point in regard to the kind of operating economies we have achieved.

Mr. MACDONNELL: I watched one train going through Brockville the other day, and it seemed to be as long as eternity.

Mr. GORDON: In May, 1951 on through cars to Montreal terminal we were averaging 20 hours to get through cars through our Montreal terminal. That is, in and out of the terminal on their way to their destination. In April 1952 we reduced that to 13 hours. That has primarily arisen out of the determined method of marshalling trains at the point of origin. In Toronto our through cars were taking about 14 hours, and we have it down to 11 hours. We had a terrific congestion in the Montreal terminal that was alleviated by reason of this marshalling procedure. That is one type of economy I mention as an example of the sort of thing we can do in the railway under the management running from coast to coast. That same car in equivalent conditions in the United States might go through six, seven or eight railways and maybe more— independent railways, none of them interested in the other except getting the traffic over their lines.

Mr. GILLIS: So centralization works sometimes.

Mr. GORDON: When properly applied.

Mr. MUTCH: Under your new system do you find very much of an increase in making up a train originally. For instance, in Winnipeg do you not have to do a certain amount of that shunting. Is not some of that time taken at the point of origin.

Mr. GORDON: No, there is an overall advantage. They take more time in marshalling, but we save far more time at the intermediate point. Is not that correct Mr. Dingle?

Mr. DINGLE: Yes.

Mr. MUTCH: You only have that shunting once.

Mr. GORDON: Yes. The other day when examining the work of terminal committees in the form of traffic flow charts we spent an interesting hour observing what happened in changing this system of marshalling, and while Mr. Dingle can speak with more knowledge, I happened to be aware that these economies have been effected, and I mention that example as one of the reasons why we have a cheaper service for the Canadian people than the United States railways can give.

Mr. MACDONNELL: Would improved marshalling involve a great deal of capital expenditure in the way of trackage?

Mr. GORDON: Yes, in some cases we would have to improve the trackage.

The CHAIRMAN: Passenger traffic.

Mr. FULTON: There is the third paragraph, the only place I could find reference to the subject I would like to ask Mr. Gordon on. In the third line there is the statement: "Heavier military traffic more than offset the decline in immigrant traffic which occurred in the latter half of the year." Can you give me a statement on immigration facilities which the railway operate, where you have immigration officers stationed, and what efforts, if any, your company is making to bring desirable immigrants to Canada.

Mr. GORDON: I am glad that question was asked because it gives me an opportunity to state that we have a very definite interest in facilitating immigration traffic, not only because it increases the population for rail services,

but also that we get a movement from overseas and can settle our own vacant lands and we still have a fair amount of land adjacent to the railway for settlement. Generally speaking we regard it as a very desirable thing to do.

We have an organization overseas through which we maintain close contact with all the governments in all these countries from which immigrants are secured, and we have a very close connection with the steamship lines carrying immigrant traffic to Canada, and with all the various agencies that function in that trade. Our London office is kept supplied with all the information on current Canadian immigration requirements, settlement opportunities, and so on, and we prepare a good deal of written material ourselves, and we distribute it through these agencies in Europe and elsewhere.

For instance, our literature contains "Guide to Settlement in Canada" a pamphlet which tells the intending immigrant what to look for and what to prepare for. We distribute a "Western Provinces Map" in five languages. These publications are sent out through Great Britain and the Continent and a folder entitled "Canada" is written in eight languages with a map provided which is used for distribution on immigrant trains when the immigrants arrive in Canada, and we have a great deal more literature containing pictures and other information which is distributed through our offices in Europe and the United Kingdom. Under arrangement with the Canadian government, both the railways and the Immigration Department concentrate their activities on recruiting and forwarding, and, having obtained a passage for the immigrant, we try to sell a ticket on the basis of a combined steamship and train ticket. It is our custom to meet every immigrant at the disembarking point, and at all our immigrant stations as well as on our special immigrant trains, we usually have officers capable of speaking at least seven or eight languages. We regard it as an opportunity to meet and greet each immigrant in the sense that we find out what he is worried about, and we accept it as our responsibility to take him from the point of origin and to put him down where he is going and see that he is introduced to his prospective employer. I think we have a service we can really be proud of, and we know that by reason of the fact that we keep in touch with these people for many months afterwards, and we have some very touching letters from these people.

Mr. FULTON: Do your agents overseas actually go out and solicit immigration in the sense of trying to encourage people to come to Canada, or is their responsibility limited to their trying to get those who have decided to come to come on your railway.

Mr. GORDON: The latter point mostly. We have not enough staff to do direct solicitation, but we do work through agencies who do solicit. The steamship companies have independent solicitors although quite a lot of it is done by mutual co-operation. A lot of people write in to us, and ask us to tell them about Canada, and we write back and provide maps and folders and get into correspondence with them. But we do not do a awful lot of personal door to door solicitation because we have not the staff.

Mr. FULTON: Are your relations with the governments overseas—are they based on the assumption that officers are trying to encourage people, desirable types, to come to Canada?

Mr. GORDON: Yes, we have government officers in all the countries you mention in close touch with us who obtain from us particulars about any sort of thing in regard to Canada. We used to inform them about exchange regulations, but they fortunately are now out of the way, but in a reverse fashion the intending immigrant still has a problem with his own authorities with regard to export exchange, and we try to help them in that respect.

Mr. FULTON: What has been your experience under the assisted passage scheme. Do your company help to work out details?

Mr. GORDON: Yes, we did. That is part of our service.

Mr. FULTON: What about relationships between your offices and the Canadian government offices in the countries where you have immigrant officers.

Mr. GORDON: There is close liaison kept with these officers as well as in Canada itself. Our colonization department in Canada is very closely in touch with the appropriate officers in Canada, and very often sit in meetings dealing with mutual difficulties, so we are well informed and through us we frequently point out things that might be straightened out at the other side.

Mr. FULTON: Can you give us a statement in summary form of where you have these offices and the number of staff.

Mr. GORDON: I think we have it in the report—or is it in the time table? We have these passenger traffic offices in Europe, located in London, Antwerp, Glasgow, Liverpool, Paris, Sydney, Melbourne and Wellington, where we provide that sort of information, and we also have liaison in Denmark which looks after the Scandinavian countries, and in Canada itself we have offices in Montreal, Winnipeg and Toronto.

Mr. FULTON: The only offices you have in Europe are in Antwerp, Paris and I think you said Denmark.

Mr. GORDON: Denmark is not shown here, but I know there is a liaison officer there—in Copenhagen—the Scandinavian representative.

Mr. MUTCH: Is there only one in the British Isles?

Mr. GORDON: The London office is what I am referring to. We have an overseas headquarters in London and we have a staff of ten in that office, and we have an office in Glasgow and we have passenger information offices in Liverpool, Antwerp and in Paris.

Mr. MUTCH: Have you any idea what percentage of the staff in Liverpool, London and Glasgow is Canadian?

Mr. GORDON: No. I could not be sure at the moment. There are Canadians there but there certainly is a local staff too.

Mr. MUTCH: I would suggest there is some advantage in a system which interests itself in immigration in maintaining a distinctly Canadian atmosphere. My own personal observation has been it is to some extent lacking. I do not want to go into an office and inquire about Canada and be told in European or British Isle language something about my own country and I would think the potential immigrant might make a beginning by talking to somebody from Canada about the country he is going to be located in in an atmosphere which is distinctly Canadian.

Mr. KNIGHT: We have a distinctive language I take it from your remarks?

Mr. MUTCH: I believe it is possible to discern the difference.

Mr. CHURCHILL: What is the cost of this immigration service and where is it shown in the report?

Mr. GORDON: Under our general operating expenses. I have not a breakdown. There is an item on page 26 headed "Colonization and Agriculture" showing a cost of \$292,838 last year. I think that is probably the total cost of that organization. That is covering Canada and all the points I have previously mentioned.

Mr. FOLLWELL: Mr. Gordon, I understand there is considerable acreage available for settlement and this settlement is held out only to immigrants. Is there any publicity given to the fact that Canadians already here also have the opportunity of locating on that acreage?

Mr. GORDON: I think it is pretty well known where we have land for sale anybody can make application for it. We have not enough land to warrant a monster selling campaign.

Mr. FOLLWELL: How many acres would be available?

Mr. GORDON: About 142,000. The cream is gone. This is the land which is difficult to sell.

Mr. CHURCHILL: Do you maintain a contact between provincial governments with respect to immigration and colonization?

Mr. GORDON: Yes.

Mr. MACDONNELL: And with the European offices?

Mr. GORDON: Yes, through our colonization and agriculture department. It is getting to seem like a big department, but it is not big. It is an active department. We have men who are interested in farming productivity and so forth who are in touch with provincial farming offices in that respect also.

Mr. FULTON: Who is your director?

Mr. GORDON: Mr. McGowan.

Mr. FULTON: Is he succeeding Mr. Guertin?

Mr. GORDON: That I do not know.

Mr. MUTCH: Is this the paragraph—

The CHAIRMAN: Mr. Follwell is trying to get in a question.

Mr. GORDON: The person in the department who reports directly to me is J. S. McGowan.

Mr. FOLLWELL: As recently as Saturday a chap pointed out to me a Canadian National commuter train which leaves Vaudreuil (Dorion) at 7.35 and arrives at 8.45 and C.P.R. operates on the same schedule and arrives at 8.15. Further he pointed out there was ancient equipment used on the Canadian National and very good equipment on the C.P.R.

Mr. GORDON: Did you say this was Montreal?

Mr. FOLLWELL: Yes.

Mr. GORDON: I thought it was only in Toronto we had that.

Mr. FOLLWELL: He was saying when he takes a long journey he travels by C.P.R. on account of the experience he had on that section.

Mr. GORDON: I am going to make an indiscreet statement and say I would rather the C.P.R. took over all the commuter traffic in Montreal and Toronto. It is a losing service.

Mr. FOLLWELL: Is it good business relations?

Mr. GORDON: I do not think so. Because, of necessity, the commuter service on a railway is an unprofitable service; it cannot be anything else. It is the situation in any railway I have knowledge of or seen and certainly it is in Canada. A service which any organization is forced into providing is going to be starved just as far as it can be starved. There is no use being hypocritical about it. I have here an extract from the judgment of the Board of Transport Commissioners as far back as 1920:

From the nature of the traffic and the service rendered in relation to cost, especially so with regard to existing costs today, it is clear that suburban service under commutation rates is at present, if it has not always, as contended by the railways, been unprofitable per se.

It is difficult to arrive at, and is not shown anywhere in evidence at the various hearings, the extent to which (if at all) the losses occasioned by actual operation of this traffic have been made up by indirect or consequential advantages or profits to the company.

This is a very interesting subject because it is the reverse of the subject I was talking about. Here we have been placed into a market we do not want to be in. We have been forced to provide fares away below cost. The irony of the situation is when any community grows up the first thing that happens is

some form of transport begins to provide that service. There is a time when electrical radial service was provided and it continued for a while and as soon as that became unprofitable they promptly abandoned it and threw it onto the railway. The railway is not designed to provide short haul service. We are not built for that. Moreover, the Board of Transport Commissioners tariff has been forced down to the point where it encourages people to look to the nearest railway for cheap transportation. If we were to charge the regular fare from a place called Oakville just outside of Toronto, from Oakville into Toronto we would have no passengers and the problem would be resolved. Because we are providing a cheaper fare it encourages people to take the railway. We are now examining this problem from the standpoint of going to the Board and pointing out that these very low fares are throwing the problem on the railways. We have, according to a statement I have in front of me, 98 coach units in commuter service in Canada. And that coach equipment is tied up considerably and used for only three or four hours a day and is idle the rest of the time. In every railway to my knowledge, and it is certainly C.N.R. policy, we put into commuter service the hand-me-down equipment. In certain instances I am prepared to concede we have gone too far and are improving some of those services when we get the new equipment we ordered. But, remember I came to this committee last year and asked for new passenger units and I have not got them. There have been a lot of criticisms of the service and all sorts of people have made proposals that we do not know our business.

Mr. FULTON: You are getting accustomed to it?

Mr. GORDON: I am getting accustomed to it but it still gives me some concern. But they forget we operate under rules and wage agreements and things of that kind. If we put on self-propelled equipment I suppose the layman would say "why not run that self-propelled equipment as fast as you can and get your traffic". We might make a faster service but we would have to pay several different crews instead of one.

Mr. GILLIS: Why not get someone to challenge you before the Board of Transport Commissioners?

Mr. GORDON: We have appeared before them on more than one occasion pleading our case on commuter service. We are going to do so again in such a fashion which I think will surprise them.

Mr. MACDONNELL: Do I understand you are forced to continue this service?

Mr. GORDON: Yes. I am glad you asked that question. The important thing about it is that we cannot abandon a service without the consent of the Board of Transport Commissioners, but by the same token we are not required to put on a service and what we are doing is resisting efforts to have us increase commuter service. If we have a service that is running we cannot abandon it without consent of the Board of Transport Commissioners. Here are samples of our rates. Regular rates from Toronto to Oakville—\$1.35. Average for each trip is 67½ cents. If we increased the commutation fare, which averages 22 2/5 cents on a 50-trip ticket, even to the regular fare then our problem would disappear because people would not pay it.

The CHAIRMAN: When you are referring to Oakville, could you give the comparable rates suburban to Montreal?

Mr. GORDON: Yes, I have two rates here: Montreal-St. Annes, the regular rate 67½ cents as against an average of 21 2/5 cents on a 50-trip commutation ticket.

The CHAIRMAN: On the question of commuters' rates; are the suburban rates around Montreal lower than suburban rates around Toronto?

Mr. GORDON: I would say that the Oakville to Toronto rate was 22 2/5 cents per trip, while the Montreal rate from St. Eustache to Montreal averages 55 cents for the regular rate as against an average of 17 3/10 cents on a 50-trip commutation ticket. The average per mile is about the same.

The CHAIRMAN: Surely you must have some suburban stations out of Toronto with a similar distance?

Mr. GORDON: I have not got the exact figures.

The CHAIRMAN: Take Long Branch, or Mimico.

Mr. BROWNE: Can you not work it out on a rate per mile basis?

Mr. GORDON: For the commutation fare, what we are doing is to proceed under the ceiling which is set by the board. If there is any fare which is cheaper, that is not our fault and we would charge more if we could.

Mr. MACDONNELL: But you are prevented from doing so by the board. You are prevented from doing certain business which you would like to do because they say it is non-compensatory. But on the other hand, you are forced to give this suburban rate on which you lose money.

Mr. GORDON: That is my contention.

Mr. MACDONNELL: You just put it on and the price is forced upon you.

Mr. GORDON: That is my complaint.

Mr. FULTON: My question is not intended to carry an implication, but you referred a moment ago to new business. Why is the suggestion often heard that the railways should be the first to put in lighter equipment for such commuter services? Why would it not cut down your costs?

Mr. GORDON: There are a number of answers. The equipment which is run on a railway has got to be standard so that it will fit into other operations of the railway. Otherwise, it would add to our cost and we would have to have specialized equipment for that section of the operation only. We can occasionally take coaches from a commuter run and use them for weekend or holiday trips, or trips when they are not in ordinary commuter use. So we are more or less forced to have standard equipment in order to make them interchangeable.

Mr. KNIGHT: Do not some of the American cities have a special type of equipment?

Mr. GORDON: There are some cases where the volume is so great that it can be utilized all day.

Mr. KNIGHT: On the other hand our population is not so great?

Mr. GORDON: There have been some comments about the Oakville service. Now if we could take that Oakville service and run it back and forth every 15 minutes during the day, there would be a different story. But in the present case you only get a peak load in the morning and a peak load at night.

In the cases you mention there are peak loads all day. And a comparable position is that of our tunnel at Montreal where we can run trains right down to the center of the city for shopping during the day. It is streetcar traffic which we should not be asked to provide.

Mr. McLURE: Why is the railway so anxious then to put in bus services, if you have this difficulty already with your commuter problem?

Mr. GORDON: "Anxious to put in bus services", where?

Mr. McLURE: Anywhere in Canada.

Mr. GORDON: The place I would like to put in a bus service is Prince Edward Island.

Mr. McLURE: But you will never get a franchise there.

Mr. GORDON: I cannot get them to take a sensible position on it.

Mr. McLURE: I told you a year ago not to bother.

Mr. GORDON: If we could put in a bus service, then we could abandon the rail passenger service. That is what we are offering to Prince Edward Island, that with our dieselization program of freight, we would be able to give them a bus service which would give them a more convenient and more efficient service and at the same time allow us to abandon the passenger trains. Moreover, we have said that if at any time when the roads are blocked, we will undertake to run the passenger trains. But that proposition has been turned down. We are now examining our position to see what we can do next. The legislative committee brought in a finding ruling against us and they will not give us a license. But if you are talking about a bus service on the Toronto-Oakville run, we would probably find that we could not get one in that case because there are existing bus companies in service there and it is up to them to extend their service, not up to us.

The CHAIRMAN: "Express Traffic".

Mr. FULTON: Is there a differential in the passenger rates as between eastern and western Canada?

Mr. GORDON: The passenger rate under the Mountain differential is being considered right now by the board. We used to have the Mountain differential on freight but that was washed out. However, the passenger differential exists still.

Mr. CHURCHILL: A comparison was made earlier with regard to the freight rates between Canada and other countries. Have we any comparison with regard to the cost of passenger travel as compared with other countries?

Mr. GORDON: Trying to figure the costs in passenger travel, is one of the most difficult things I have tackled. It is almost impossible to sort out from the overhead what you should charge against passenger business. But the Interstate Commerce Commission of the United States which is the body equivalent to the Board of Transport Commissioners here have produced a formula which they authorize in figuring out the operations of passenger service for class I railroads of the United States.

Under the operation of that formula the United States railroads show an annual operating loss on passenger service of \$681 million per year. And if we applied that same formula to Canada, which we do not do, we would show a very substantial loss on our passenger business. The analysis would show that on our main line passenger business we are probably making a little money, but on our branch line passenger trains we are probably losing money.

Mr. CHURCHILL: You say that the average revenue per passenger mile is almost 3 cents.

Mr. GORDON: Yes.

Mr. CHURCHILL: To get that figure did you take all passengers, whether they were paying or non-paying?

Mr. GORDON: Revenue passengers, you notice we said "revenue passengers".

Mr. CHURCHILL: And what does that mean?

Mr. GORDON: It means the people who pay us, not the dead-heads.

Mr. CHURCHILL: It says "revenue per passenger mile".

Mr. GORDON: I thought you were talking about revenue per passenger.

Mr. CHURCHILL: It is six lines down.

Mr. GORDON: That is based on revenue only, the revenue per passenger mile.

Mr. CHURCHILL: And you got that by dividing your total number of passengers?

Mr. GORDON: Into the revenue.

Mr. CHURCHILL: But that does not convey the picture of the actual cost per mile of the paying passenger.

Mr. GORDON: I cannot tell you what the cost per passenger mile is, but that is what it costs the paying passenger on the average.

Mr. FULTON: In making an application for rates in passenger fares do you not have to submit to the board that this will make a difference in the rate of so many cents per mile?

Mr. GORDON: That is right.

Mr. FULTON: What is your average for that?

Mr. GORDON: That is it right here, that we were getting a rate of revenue per passenger, on page 39, of 2.57 cents in 1952.

Mr. FULTON: No, not cents.

Mr. GORDON: I mean \$2.57.

Mr. FULTON: Per passenger per mile?

Mr. GORDON: Below that we show the revenue per passenger mile is really 2 cents, or almost 3 cents.

Mr. FULTON: Is that the figure you would use in applying to the board to fix rates for an increase?

Mr. GORDON: To get an increase?

Mr. FULTON: Yes.

Mr. GORDON: That is right, that would be it.

Mr. FULTON: How do you fix your passenger fares? Are you authorized to charge a maximum of so many cents per mile?

Mr. GORDON: That is right.

Mr. FULTON: And if you set a figure for Vancouver to Edmonton, you multiply it by cents per mile?

Mr. GORDON: That is right, and if we apply for an increase in that, we would obtain that increase in cents per mile.

Mr. FULTON: Is that standard across Canada?

Mr. GORDON: Yes, apart from the Mountain differential, that is the standard with the exception of a few minor places where, technically, second class passage is still permitted. But people do not know where they are or have lost track of it and I hope they won't find it.

Mr. KNIGHT: Is your immigration traffic profitable per se?

Mr. GORDON: We think so, from our analysis.

Mr. KNIGHT: I do not know if I make myself clear, but what is the difference in the rate that an immigrant pays as compared with the ordinary coach rate?

Mr. GORDON: There is a cheaper rate for the immigrant.

Mr. KNIGHT: If your every day passenger traffic is not profitable, I would suggest you are losing some money on the immigrants?

Mr. GORDON: No, no, because we handle the immigrant train in a block. We get a full train, and the facilities are fully occupied. Moreover, we do not provide anything like the posh services that we do on some of our main line trains.

Mr. KNIGHT: You mean that the facilities are all being used 100 per cent?

Mr. GORDON: That is right.

Mr. GILLIS: With respect to the Oakville-Toronto commuters' run, that means that the railways are subsidizing that run. You are offering a subsidy there?

Mr. GORDON: I would not apply that word to it, but I cannot refute your conclusion.

Mr. GILLIS: Would that principle not apply more particularly in the form of a little subsidy applied by the railroad for keeping those smaller communities?

Mr. GORDON: It has been recognized in hearings before the Board of Transport Commissioners that to the extent that passenger service is unprofitable it must be borne by the freight shippers of the country. That is the only place it can come from.

This specific commutation fare is a point of grievance with the railway. Perhaps I am being unfair with the board, because there is another side to the case but I would like somebody else to present that side. I am saying from a biased or prejudiced point of view, that we do not think it is fair. But the Board of Transport Commissioners could bring out quite a number of considerations which they think are valid, and insist that we should continue that service. The Board would say that communities have been built on the assumption that railway services would be provided. So I must emphasize the fact that I am giving you a biased point of view.

Mr. GILLIS: Perhaps they could order you to buy fuel from some of the small coal operators which operate in Nova Scotia.

Mr. GORDON: No. They have no power of which I know to do that. I do not think there is any power existing in Canada so far as I know which would permit them in law to instruct the Canadian National Railways to buy anything at other than competitive prices. I know of no such law and I know of no such authority. And if such authority did exist, I would doubt very much if it would be exercised.

Mr. GILLIS: But you have an order to maintain this service below cost.

Mr. GORDON: This is in the law. The Board of Transport Commissioners has the power to do that, and there is an Act in respect to it, the Railway Act, which deals with it. But the Railway Act or any other Act so far as I know gives no authority to force the Canadian National or to the Canadian Pacific to buy a machine or to buy coal at such and such a price. No such authority exists, but it could be brought into existence and it could be done through an Act of the House of Commons.

Mr. GILLIS: We will see that such an Act is passed.

Mr. GORDON: Do you want to bet?

The CHAIRMAN: "Express Traffic".

Mr. MUTCH: Before you go on to Express Traffic—

Mr. CHURCHILL: I have one more question on passengers.

Mr. MUTCH: Mr. Chairman, I have the floor, I hope. Is this the place to discuss passenger traffic? If so, let us get back to dining car service as I want to say something about it.

The CHAIRMAN: I do not know of any more appropriate place, so go ahead.

Mr. MUTCH: Mr. Chairman, I hope that Mr. Churchill will not think that I was intentionally rude.

Mr. CHURCHILL: It sounded that way to me.

Mr. MUTCH: I had been trying for some time to catch your eye, Mr. Chairman. And I thought from Mr. Churchill's expression that he might think I was rude.

At the last session, Mr. Gordon, you spoke about pricing yourself out of business. I noticed in November of last year that you made the comment that the dining car service were losing roughly at the rate of $2\frac{1}{2}$ million. Now, I had occasion—I have not checked it against the figures—but I had occasion

to use the services yesterday and I brought with me a couple of menus, and about them I want to make one or two observations. The first one is this: I think that even the Liquor Commissions of the various provinces are pikers compared with the dining car service today because, when you charge for water, and when you get on your menus such things as a cup of tea, or a cup of coffee, or a cup of soup at 30 cents—I walked through a long train and I made a fairly close check of the number of people who used the services of the dining car.

I am well aware that on the short runs there are other and various services. But it seems to me that on the transcontinental lines, not only on your railroad but other railroads, where the passenger is completely at the mercy of the dining car, he is being taken for an increasingly rough ride. I do not think perhaps I am wrong when I say that the number of passengers was substantially reduced as compared with the number when I travelled last time, but the number who were using the services was substantially less. I read under the heading of

Dinner Special \$1.85
Corned Beef Hash
Boiled Potatoes—Green Beans
Ice Cream With Wafers
Coffee

for \$1.85, and I noticed that there was no soup and no bread and butter, and that on a reasonably accurate estimate about 20 cents worth of beef got into the corn beef hash. I am surprised that it was there.

Now, I am not an authority on catering or anything of that description, but I am an authority on hunger and on eats, and there were shocking remarks made by people on the train, No. 2, yesterday, which indicated to me that if the losses are anything of the nature indicated, that perhaps more contributions of similar amounts might make the travelling public much better intentioned toward the system, as well as much more comfortable. I will give you another of what I thought was an exceedingly interesting example: A head lettuce salad—it is on the à la carte side, but I noticed most people were eating on the à la carte side. A head lettuce salad at 90 cents, so I got one to see its size and proportion, and I find that it divided out, depending on the size of the head of lettuce, five or six persons per head of lettuce. The cost per head of lettuce to begin with was 15 cents and there was about seven cents worth of dressing. It looked like a return of \$5.23 on an investment of 22 cents, if anybody ate five of those particular salads. I am not going to go through the \$2.70 creamed chicken dinner with about 20 cents worth of chicken in it, by count, or a \$3.00 lamb chop dinner, that I would not have to take my teeth out to eat in four bites. It is on behalf of a lot of people, and not the least on my own, that I make the protest with respect to increasing prices, particularly on the transcontinental run, and to say that it is one thing to admit to the public in this interesting little document, and then to suggest that those of us who have a salary like the president or an expense account like mine are paying really for service that is in there rather than for the food. It has become a matter of very bad publicity. I know a lot of people who work on your dining cars who once in a while stick their head out of the dining car windows at a station stop and call me by my first name. I do not think your own employees are quite happy about the situation. I do not know how they feel when they take their own pay cheques, but I know they feel a little guilty when they hand me my bill, and it occurred to me this was not a bad place to mention the subject. It is a matter of general discussion. I know something of the nature of the president and I wonder if it might not be possible for us to have, first of all, some

better service in the interest of the road itself, and some explanation of it other than the fact that we are losing a certain amount of money and we are lucky to get anything at all.

Mr. GORDON: It seems to me, Mr. Mutch, you have pretty well answered your own questions because you pointed out the fact we are losing substantially on our service. We just get back again to Mr. Gillis' subject that we are pricing ourselves out of the market, that is all. We may some day have to face up to the decision that we will take dining cars off altogether. That may be the ultimate. I have before me here a statement. You will observe in the statement which you mention, it shows the size of the losses that we are incurring in this dining car business. We went to work on that two years ago and we went after every item of expense that we could control. We substituted on items that may not be visible to the public. We are told by our opponents in freight rate cases that we are not economizing at all, that all we have to do is to cut out our services, and as as soon as we do that they complain about the service, so we cannot win. But, in any event, as a result of the most searching inquiry into things we could economize on in running this service, we cut our costs in 1952 by \$802,000 a year, and I began to feel we really had done something for the dining car service. Then on September 1, 1952 we had to pay out \$700,000 additional wages. It is just as simple as that. At the present time, in 1952, our average loss per meal is 55 cents, for every meal we serve, so in the cost of the meal you order at \$3.50 you have the satisfaction of knowing that it costs us \$4.05 to provide it to you. Now, if you think we should provide that meal for \$2.00, and that we bear the other part of the cost amounting to \$2.05 a meal, I cannot dispute your reaching that decision, but I am certainly going to do everything I can to reduce the amount of subsidy that we are providing to dining car passengers.

Mr. MUTCH: I do not suggest any prices that you should charge, but I do suggest to you that you won't have to pay the crew any more to feed 128 people a meal, at any given meal on a day on the transcontinental line, than you have to pay that same crew to feed 25 or 30 people, and my point is this, that the travelling public even when they are stuck—

Mr. GORDON: I am sorry if I misunderstood you. That is a question which is actively under experiment now. We are going to attempt to produce a package dinner. That has all been under experiment in the last two years, but now we have started looking to see what we can do. If it is not in effect already, it is in the process of going into effect, where we propose to try out a package dinner or meal that will, we hope, attract a volume market, to see if we can encourage coach passengers to come back into the dining car and have their meals. There is a very divided opinion as to whether or not that experiment will be successful. I am rather doubtful, but I am willing to try it.

Mr. MUTCH: Seeing that you are making an experiment, I will be happy to be part of the experiment.

Mr. FULTON: What about these pre-prepared meals that are served in the airliners?

Mr. GORDON: My report here says there is no potential economy which enters into the subject under this heading. The findings from our preliminary survey of possibilities in this field based upon experiments in the U.S.A. will be used as a base for further study. It is indicated that considerable capital investment will be necessary if this type of food service is to be adopted, but all of this is being developed. Where the aeroplanes get their advantage is that they have a terrific amount of electric energy that will allow them to keep the meals hot. Moreover, if I could get railway passengers to accept the type of meal they get on board plane, I think we would have answered Mr. Mutch's question.

Mr. MACDONNELL: I was going to ask that question, are we really being given a too high quality of service. I think of beautiful cleanliness, constant renewal of table cloths. Once I was in a dining car where there was a counter. It was not a perfectly appointed table, I admit, but being Scotch I was prepared to put up with it and get a reduction.

Mr. GORDON: The trouble is, Mr. Macdonnell, that all people in Canada are not Scotch!

Mr. KNIGHT: Well, let us go to Scotland for a moment.

Mr. GORDON: Here is the sort of thing we have been looking at, and under the very headings you mentioned. These are the factors of economy that we have been searching: food costs, plastic headrests, standard of equipment in dining cars, plastic table covers, pre-cooked frozen food, and so on. All these things are under experiment or examination now with an idea of reducing the costs.

Mr. MACDONNELL: Do you call that a dinette car, the one with the long counter in it?

Mr. GORDON: That is a lunch counter car.

Mr. MACDONNELL: What is the result of that from an operating point of view? Is that an economy?

Mr. GORDON: We still have to have the result of the experiment. We think it is, but to get the dinette in the first place you have to take an existing car in and spend maybe \$50,000 to \$60,000, or maybe \$75,000 to \$80,000; that is your first risk capital. Then you have to determine if the public likes it or not. It is fair to say that we hear from 50 per cent of the people who do not like it, and 10 per cent of those who do. Any change of this kind is resented; any reduction in the quality of service is resented. We built up in Canada, and in the United States, a hotel service on wheels which is far too luxurious. I want you to understand this, that I am not a one-man show in the railway. I do not try to be. I have had meeting after meeting with our traffic people and operating people about dining cars. I get the most violent disagreements from traffic men, who say, "Mr. Gordon, please do not degrade the standard of dining car service, it will hurt us, because people judge our service on what they see in the dining cars, and the passenger coaches". You cannot get me to believe, though, that there are people who send us their freight because they get a table napkin on a dining car. But there are the extremes.

Mr. McLURE: Or a silver teapot with the service?

Mr. GORDON: There are no silver teapots now. There may have been in 1930, but it is all stainless steel now. We have really done a job that we can be proud of in respect of cutting out these luxuries.

Mr. KNIGHT: We were going to Scotland a minute ago, at least I was going to suggest we might go. I do not want to take Mr. Mutch's position. I was doubtful about some of the things he said, but I think it is true, and generally admitted, that dining cars service on the railroads is a luxury service. When we talk about the Scotch, I was thinking of the old railway line coming down from Edinburgh to London. There is this about it, that everybody on the train east. I admit the service is not as good, I admit it is crowded. It has got to be crowded before it becomes good business, just like your immigrant trains, I would suggest that the passenger who travels in the coaches has as much need to eat as the man who travels in the drawing room. I would like to see all these people eat. I would like to see a less pretentious service. Table linen costs money. I would like to see, particularly in this country of long distances—and I might say that I know what these long distances mean ever since I was an immigrant boy in 1909. Since then I have been crossing this country many times, and it has always been my view that people travelling on

the train are embarrassed simply because they cannot get a bite to eat at what it is worth. There is a scramble with people asking information about, "Are we going to stop for 10 minutes", "Have we time to run up to the store for a dozen of oranges", and questions like that. I do not think that is the way it should be on this railroad that belongs to the people of this country. I am not critical of the Canadian National Railways. I am anxious to improve their services. I believe that is one way in which service to the people of this country could be improved, and I am glad that Mr. Mutch raised that point, although I do not agree with everything that he said.

Mr. GORDON: I want to say this, that I am very grateful for the opinions I have heard here because they support my general position. Rome was not built in a day, and dining cars cannot be degraded in a night. That takes time. There is the balance of managerial judgment as to how far that can go. It is actively under way now, and since this committee is here for the purpose of telling me what the representative opinion is across the country, I am delighted to have your opinion that the public would take that kind of degrading of service. I have had contrary opinions I can assure you.

Mr. FULTON: Would it not always be a fact that the railway company would serve meals cheaper at a counter than on the train no matter how much you economize on your service on the train.

Mr. GORDON: Generally speaking I would say yes, but then again there are difficulties in a country like Canada in that there are many places where it could not be done due to inconvenient hours and the fact that we are rushing like the devil to keep on schedule. We cannot afford the 15 or 20 minutes necessary to allow passengers to get off. Another problem is that even with our restaurant service we cannot get people to tender any more. At different stations we have asked private enterprise to bid and we are prepared to give them space and we cannot get them to bid.

Mr. MACDONNELL: Are most station restaurants run by the railway?

Mr. GORDON: Some are, but not most. We are having the greatest trouble trying to get people to take them.

Mr. MUTCH: It is manifestly impossible for a woman with a small child to get off the train when it is 30 below zero and try to get a meal at a luncheon counter.

Mr. GORDON: We are doing all we can to get the volume market. We are prepared to spend money to re-equip kitchens and form dinettes to get that traffic. We might find it is a bad gamble but we are going to make the attempt.

Mr. MACDONNELL: You had better find some humble members of parliament to sit with your officials.

Mr. GORDON: If you can find any I will be glad to have them. Perhaps that should not be on the record.

The CHAIRMAN: I think it is a natural. I think it should go on the record.

Mr. CHURCHILL: Concerning the safety of passengers, I was wondering if there were figures available to indicate the accidents suffered by passengers while travelling in trains on a comparative basis from year to year and how that standard of safety of Canadian National compares with other companies.

Mr. GORDON: That is a painful subject. It is not something I can express firm views on because conditions vary so greatly, and the element of luck—good luck or bad luck—plays such a part that it is difficult to form judgment. By and large however I am not too happy about the accident record of the Canadian National Railways, and we have been doing everything we can in that respect to tighten up regulations and so forth, but the fact remains that they are just simply an inevitable part of the day's business. I do not think

our record by and large is worse than that of any other railway, but that is poor satisfaction. At any given point it may be better or worse because, as I say, the element of luck seems to play a part.

Mr. CHURCHILL: Is there a constant study going on as to the cause of accidents and the records.

Mr. GORDON: Yes, every accident is thoroughly investigated and reported right through every supervisory level to my own desk. There is no sort of accident on which I have not a personal report through the vice-president of operations, and Mr. Dingle and I are constantly in consultation as to what lessons are to be learned from each individual accident, and we put into operation every precaution that we can think of but the accidents do happen.

Mr. BROWNE: Is there any outside inquiry on these accidents?

Mr. GORDON: The Board of Transport Commissioners of course always has an over-riding right to investigate any accident and does so.

Mr. BROWNE: They do?

Mr. GORDON: Yes. They hold inquiries from time to time. They held one inquiry two years ago.

Mr. BROWNE: Where was that?

Mr. GORDON: In British Columbia. You probably remember the accident we had there.

Mr. McLURE: Does it bring up the subject of level crossings.

Mr. FULTON: May I follow up a question in regard to page 25 an item on operating expenses about seventh from the bottom. It is \$958,000 on injuries to persons. Is that compensation to persons travelling on or injured by the railway or does it include compensation to employees injured in the whole system?

Mr. GORDON: That particular figure covers only our own employees.

Mr. FULTON: You would not have compensation to passengers or passengers injured?

Mr. GORDON: They are in general accounts. Under casualty account, the total injuries to persons paid in 1952 amounted to a total of \$3,675,000.

Mr. FULTON: Of which, according to page 25, \$958,000 was employees leaving \$3 million available to others.

Mr. GORDON: Yes, but remember that compensation to employees covers the cost of setting up Workmen's Compensation claims and things of that kind.

Mr. FULTON: How does the figure, in this year, of \$3 million compare with last year?

Mr. GORDON: Last year it was \$3,015,000 and this year it is \$3,675,000.

Mr. BROWNE: Reverting to the dining room, what was the number of meals served, the average price and so on.

Mr. GORDON: In 1952 we served 2,009,644 meals, and the average revenue per meal was \$1.54. The average expense per meal was \$2.09 and the average loss was 55 cents. I am dealing in averages.

Mr. MACDONNELL: Can you give a breakdown of the figure of \$2.09.

Mr. GORDON: In what?

Mr. MACDONNELL: In cost per meal. How much of it is food?

Mr. DINGLE: The cost for food was 58.6 cents, for laundry 8.2 cents, wages 114.1 cents, supervision and other items of expense 28.1 cents making a total of 209.0 cents.

Mr. KNIGHT: And no share in the operation of the train itself is charged against that?

Mr. GORDON: No, it is bare cost of dining car service—staff, wages, napkins or whatever services there are of cutlery, but the depreciation on equipment is not carried.

The CHAIRMAN: Nor the cost of hauling equipment?

Mr. GORDON: No, just the actual cost of providing the service.

The CHAIRMAN: Then the loss is actually greater?

Mr. GORDON: Of course.

Mr. McLURE: That figure you gave us of \$3 million compensation for accidents does not take in compensation and the cost of level crossing accidents that we are having so many of.

Mr. GORDON: That would cover any persons injured on the railway including employees.

Mr. MACDONNELL: You pointed out that the figure of 209 cents is not the total cost of the meal?

Mr. GORDON: It is the out of pocket cost.

Mr. MACDONNELL: Leaving these other things out do you think it is worth the work necessary.

Mr. GORDON: We know it is bad enough now without building it up further. If we were to advance a cause for eliminating the dining car service I would take in these other factors.

Mr. MACDONNELL: It is the bare fixed price of the meals.

Mr. GORDON: Yes.

The CHAIRMAN: Express traffic.

Mr. BROWNE: May I ask Mr. Gordon if the same increases apply to express traffic as did to freight.

Mr. GORDON: No, not in the same ratio.

Mr. BROWNE: How much would you say was increase in the cost of express traffic since 1948?

Mr. GORDON: My difficulty is there is no overall percentage of increase in express. It is obtained by going over individual items, but our actual dollar increase we can give you.

Mr. BROWNE: But the same arguments apply that the cost of material and the cost of wages have gone up.

Mr. GORDON: Yes, that is right.

Mr. BROWNE: We know what these are, but we do not know the express.

Mr. GORDON: We say we have an increase in express rates by going over the individual classes of commodities and increasing them where we can because we are in competition with mail and other types of carriers.

Mr. BROWNE: The same thing applies to freight. Can you estimate—you say a 98 per cent increase since 1948. This is a nominal increase. What is the increase in the express?

Mr. GORDON: I will have to get that for you.

Mr. BROWNE: How did the express traffic turn out. Did it improve since last year?

Mr. GORDON: Express traffic last year has improved as shown in my report, page 9.

The CHAIRMAN: Page 9—6 per cent.

Mr. BROWNE: I mean the outturn as far as money—dollars and cents are concerned.

Mr. GORDON: Turn to the statistical page, page 25. I think you will find the express results there. Express department shows that revenue has increased from \$30,670,031 to \$35,820,000, that is from 1951 to 1952.

Mr. BROWNE: And your costs.

Mr. GORDON: You will find the item on page 27.

Mr. BROWNE: Express department operation \$3 million. Would that be the figure?

Mr. GORDON: Two or three things have to be added together. There is the figure I gave of \$35,820,000 operating revenues and operating expenses are \$23,888,000 and the net revenue is \$11,932,000.

Mr. BROWNE: That is the profitable part.

Mr. GORDON: That does not include operating costs that we charge against the express for privileges that we give the express department so to speak.

Mr. MACDONNELL: For example?

Mr. GORDON: Well, hauling express cars.

Mr. BROWNE: You do not charge for that?

Mr. GORDON: We do as separate agents, but I am taking the figures I gave you on the money we take in, less what their direct operating expenses show and there is an operating profit of \$11,932,000 and against that we charge the express for haulage and handling business. The accounting method is to take the net revenue into the railway income statement. I have a figure here which shows whether or not our estimate of that service to the express department is profitable or not.

Mr. BROWNE: Can you tell me how much of that increase in revenue is made up by increased rates allowed by the Board of Transport Commissioners?

Mr. GRACEY: The increase was \$2,305,000.

Mr. GORDON: Increased rates.

Mr. MACDONNELL: And the rest was increased business?

Mr. GORDON: Yes.

Mr. MACDONNELL: If you go to the Transport Board to discuss your express rates do you not have to give them a complete picture of your costs before you discuss that with them? Do you not have to deal with your application for express rates on a true and complete picture of your business?

Mr. GORDON: Yes, and in the express department a great many of the rates were established under the ceiling and we had some room to move. At the last application for a freight rate increase we said we will deal first of all with freight rates and then look over our express department and communication department and see how increased costs have affected them and then come back and show how much we have not recovered of the wage increase.

Mr. MACDONNELL: I can see you cannot rationalize on a figure of every tiny operation, but here is an operation which is separable, I take it, the costs of which are ascertainable. Do you think it is sound not to have that separated so that you will know exactly what it is?

Mr. GORDON: I can get it for you. I do not have it before me now. I can get it for you tonight. To arrive at it really means we have to take a lot arbitrary judgments.

Mr. MACDONNELL: I would like to ask you that question again. Why we deal with so important a branch of the service without actually knowing what they are doing?

Mr. GORDON: I can tell you this: In analyzing the express department as we do from time to time we are of the opinion it is a profitable operation.

Mr. MACDONNELL: When the transport board considers this, do they not insist on knowing the actual condition of the express business?

Mr. GORDON: It depends on the situation. Here we had a specific situation; the board had to deal with where our wage cost had gone up by "X" dollars. They knew our over-all revenue could not afford that amount of increase and we said to the board: we are asking you to look at the freight rate increases that we think we can get by with. Whether that will cover enough of our cost to enable us to carry on, we do not know. We tell you now we are not yet in a position to say how much of that wage increase which is applicable to the express department or communications department can be covered out of increased rates; so, we will come back later and tell you how much we can recover by increasing express rates.

Mr. MACDONNELL: Your suggestion, as I understand it, is there are certain tentative figures which are not worked out and you are in difficulty in regard to the express department?

Mr. GORDON: Yes.

Mr. MACDONNELL: Would you be able next year to give us that?

Mr. GORDON: Yes. I can bring a statement which will answer your question.

Mr. MACDONNELL: If the difficulty is by reason of your being in a sort of transition period then I do not think I should ask you.

Mr. GORDON: I do not know how many of our rates will stick.

The CHAIRMAN: Do I understand your express business is highly competitive and the fact that you have not exacted the rates you should be allowed to charge would indicate that?

Mr. GORDON: It is highly competitive and even with increased rates we cannot be sure we can keep the business. So I do not know whether any changes we make will cover the complete costs.

The CHAIRMAN: Communications traffic.

Mr. BROWNE: What is the communications department?

Mr. GORDON: Telegraph and telephone.

Mr. BROWNE: You have cables on that?

Mr. GORDON: Yes. Private wires and things of that kind.

Mr. BROWNE: You charge tolls?

Mr. GORDON: Yes. Telegraph, private wire service; we also have to have telephone lines to operate the railway and we lease such for radio broadcasts and things of that kind.

The CHAIRMAN: I believe we have already covered operating expenses. It is now 5.30. Should we adjourn until 8.30?

Agreed.

EVENING SESSION

The committee resumed at 8.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Thank you for coming so promptly.

"Employee Compensation".

Carried.

"Prices".

Mr. FULTON: Mr. Gillis is not here, Mr. Chairman, and it is not yet 8.30.

The CHAIRMAN: I offered him the first call just as he was leaving, but he shook his head.

Hon. Mr. CHEVRIER: We have had two sessions already.

The CHAIRMAN: "Prices".

Carried.

"Taxes, rents, and other income accounts".

Carried.

"Hotel operations".

Mr. KNIGHT: Are you not a little ahead of time, Mr. Chairman?

The CHAIRMAN: We are right on the dot.

Mr. KNIGHT: You have carried two things before half past. I would like to reserve the right to raise a small matter.

The CHAIRMAN: Under what heading, and we shall revert to it immediately?

Mr. KNIGHT: "Employee remuneration".

The CHAIRMAN: All right, "Employee compensation", that is what we call it.

Mr. KNIGHT: Perhaps I should apologize for coming in at this particular moment. But the matter I wanted to bring up was a matter which Mr. Coldwell asked me to raise as a result of correspondence he had from a person. I do not know if I should mention that person's name, or that he would have any objection. He says that one of the handicaps that the Railway Brotherhood have is in regard to the actual wage structure of the Canadian railways, and that while wage rates are known, it is not known how many employees receive a certain wage. Consequently he says it is impossible to discuss intelligently any figures in that regard. The Dominion Bureau of Statistics figures show the average earnings of only the average number of employees. Consequently no correct deductions with regard to the trend of actual wages can be made from the figures. Now there may be a point raised that this is a matter of internal management, and that these figures are not usually disclosed. But the correspondent points out that Mr. Justice Kellock in his findings published the wage figures before March 1, 1948 until August 31, broken down according to certain categories. The problem that this man would like to solve—I think he is a research consultant—is how many railway employees receive a particular wage or salary. He suggests that Mr. Coldwell should address a question to Mr. Gordon upon this occasion, in view of the fact that Mr. Justice Kellock published the various wage and salary categories of the Canadian National non-operating employees in the period which I have mentioned in his article. It may be, Mr. Chairman, that it is difficult for you to hear me in the matter of maintenance of railway operations. And on December 18, 1950, it is requested that this table be brought back to 1939 as well as brought up to date, indicating the number of employees in each of these classifications. That is the matter that was handed to me by Mr. Coldwell who is not a member of the committee.

The CHAIRMAN: Do you think it is the duty of this committee to supply information to some expert or to some chap who is carrying on a private business of his own?

Mr. KNIGHT: I am not interested in a man carrying on a private business. I am interested in what I consider to be a matter of public interest, and of interest to employees.

The CHAIRMAN: Perhaps I did not understand your explanation correctly, but I thought you said that this gentleman is an analyst of some sort, and that he was complaining that he could not get some statistical information which he wanted for his own use.

Mr. KNIGHT: No, no. I simply disclosed the source from which this suggestion came that this information might be obtained. I did not have to do it. There was no necessity for me to do it. I can ask a question on my own hook as a Member of Parliament and as a member of this committee. I have not disclosed, as a matter of fact, the source from which the question came.

Mr. GORDON: Mr. Chairman?

The CHAIRMAN: I rather think that I would prefer to reserve expressing an opinion on that point. I would ask the members of the committee to think it over and at the next sitting we will deal with it. But so far as I am concerned, personally, I have always understood that the reason parliament elected to have corporate management of this tremendous institution rather than management by a department of government—and the decision was made quite advisedly—was the intention that the directors would administer the road for the Canadian people.

Mr. KNIGHT: Yes.

The CHAIRMAN: And that they would have the sole responsibility for administration. However, I am not making a ruling on that now. I would rather just reserve that point.

Mr. KNIGHT: What is your objection to it?

The CHAIRMAN: I might ask with equal force: Why is the question asked?

Mr. MUTCH: It would be an interesting answer.

The CHAIRMAN: Let us think it over anyway, Mr. Knight. I have usually found this committee to be pretty reasonable.

Mr. KNIGHT: Of course, it is within the function of the committee to refuse such information.

The CHAIRMAN: Are there any other questions on "Employee Compensation"? Mr. Gillis?

Mr. GILLIS: No. This is only a history of negotiations and settlement.

The CHAIRMAN: We now come to "Hotel operations"?

Mr. FULTON: On page 12 you make reference to what appears to be a new system of accounting which you are contemplating bringing in in the hotel department. You refer, in paragraph 38, to the prospect of using straight line depreciation, and you say:

Whether or not depreciation accounting should be introduced will be determined as part of a policy review of those accounting procedures which are most likely to give a realistic picture of operating results.

Do you consider a rate of 2 per cent adequate? Is that not a very low figure for annual depreciation?

Mr. GORDON: I do not think so, if you look at the record. Consider the case of the Chateau Laurier. It was built in 1912 but it still is a pretty good hotel.

Mr. FULTON: There is no question about that. But how do you propose this? Would not depreciation be normally considered higher than that?

Mr. GORDON: I think that the important thing when you discuss rates of depreciation on a straight line basis is that you reveal what rate you take, and then anybody who is critical may examine it. We have set a rate and it is quite severe. The whole question of depreciation is a troublesome one. It has been brought out in the report of the Royal Commission that the whole

question of depreciation accounting should be examined. It is now under very close study by the officers of the Board of Transport Commissioners who will in due course be having an inquiry into it.

There are several methods of depreciation all of which are equally recognized by the accounting profession. There is retirement accounting which contemplates charging the asset off to operating expenses in the year that it is taken out of service. There is quite a lot to be said for that because on the average in any large property such as ours, the annual charge will tend to even out. Then there is the matter of straight line depreciation. There is also what we call user depreciation, which the Canadian Pacific Railway uses in particular. It attempts to recognize the actual use of the particular piece of equipment or capital asset. The assets are used or punished by so much during the year, and the accountants try to estimate the life which has been taken out of them, and have a formula for setting it up. That is three. Then there is the sinking fund method of depreciation.

The accounting profession world-wide is troubled with the academic question and also the practical matter of how to handle depreciation in a period of rapidly rising prices. If you take the normal method of depreciation you may reach a situation where at the end of the depreciation period you may be fully depreciated, but if you have to replace that asset, you may have to pay twice the amount of money in order to replace it. So as I say the accounting profession itself is divided in its views on these matters—but from the discussions which I have had, and from the reading which I have done on the subject, I know there is a good deal of thought being given to it.

Since there are such widely different opinions I have employed the services of an outstanding expert to consider the whole question from the standpoint of the Canadian National Railways, and on the basis of his discussions and his report to us, we, in turn, will make our submission to the Board of Transport Commissioners during their inquiry, and we hope to make a contribution to the thinking on the subject. It is a question of how to deal with depreciation in a period of inflation. It is an awkward and a difficult one. It looks simple. It looks as if you should just increase it. But the fact of the matter is that you cannot, from one point of view, recognize in depreciation techniques the decline in the value of money. There is no depreciation or accounting method which recognizes that difficulty.

Mr. FULTON: I assume from the reference you make to the revision of your corporate structure that you will also be studying it. Possibly one of the ten companies you refer to would very likely be a company which could take over and hold the hotel system?

Mr. GORDON: I suppose so, but we have had a great deal of difficulty in connection with that. Our hotels have quite an interesting history. They came into the system with all sorts of differing types of ownership and rights and we have had quite a lot of trouble sorting them out. But we have made excellent progress and next year we should be in a position to say more about it.

Mr. FULTON: The question of depreciation is becoming important. It would be reflecting not only the real position, but since you are now subject to pay income tax, it would assume added importance.

Mr. GORDON: Quite so.

Mr. FULTON: Am I right in saying that an hotel, just as a public building, takes a good deal of punishment in the course of a year?

Mr. GORDON: That is right, and that again raises the whole question of the accounting system. Our policy in connection with our property, hotels in particular, has been to have a current maintenance policy. We put back and charge to operating expenses currently as far as we can do so the actual current

wear and tear, especially of hotels. We have put this comment in the report deliberately to indicate that I have come to the conclusion that we should not try to settle in isolation the question of depreciation in hotels and that there is a much broader question affecting the whole of the railway property. The hotel depreciation question is relatively unimportant when compared with the basic question as to what is the appropriate method of depreciation.

Mr. FULTON: One last question on that point. I am not sufficiently expert in accounting methods to comment on the reserves for depreciation which you have set aside in your accounts, and whether it takes into account the amount which you must have for depreciation as against income for tax purposes.

Mr. GRACEY: We would not attempt to adopt any rate unless it was satisfactory to the Income Tax Department, and which would be related to the depreciated value of the structure.

In practice what we would do would be to clear any method that we wished to adopt with the Income Tax Department first.

Mr. FULTON: You might be accumulating a depreciation reserve at one rate?

Mr. GORDON: And that brings up another point which is not dealt with because we are not ready to deal with it, since we have not thought it through. Take the dieselization program. In that program we have started off to dieselize in places where we can see that we can pay off the capital investment out of savings in a period of not less than 10 years.

In many cases it might be paid off in less, but if we did not get depreciation by reserves set up out of those savings, the effect of our dieselization program will be passed on through those savings to the consumer, and we would be left with a capital investment and nothing to get for it. So we must have some means of recovering our capital investment over some period of time which will be recognized by the proper authorities.

I believe there is one railroad in the United States which has a program which has been approved by the Income Tax authorities over a period of 15 years. In our program we are taking 10 years at the moment, but I think the question of reserves and how much we should charge into our current operations for capital investment is highly important, particularly having in mind that we have a trend of obsolescence ahead of us in the possible development of the gas turbine.

Mr. McLURE: What is the net operating income from the different hotels? We have got the bulk there in paragraph 35.

Mr. GRACEY: Yes, I can give that to you.

Mr. GORDON: Do you want it by each hotel?

Mr. McLURE: If you please.

Mr. GORDON: The Chateau Laurier—these are black in figures unless I mention otherwise—\$423,000. The Fort Garry, \$101,000. The MacDonald shows a red ink figure of \$168,000. The Bessborough, a black figure of \$91,000. The Nova Scotian, \$91,000. The Charlottetown, \$14,000. The Prince Arthur, \$37,000. The Newfoundland, a deficit of \$1,000. Jasper Lodge, a deficit of \$91,000. Minaki Lodge shows a surplus of \$35,000. Pictou Lodge shows a surplus of \$4,000, making a net of \$536,000.

In connection with the Macdonald hotel, there is a deficit which is brought about by reason of the fact that we made a retirement charge in connection with alterations now going on. This charge to operating expense in 1952 amounted to \$348,000. I should also point out that none of these figures which I have given makes any allowance for interest and depreciation, as I have pointed out in the report.

Mr. MACDONNELL: One question on retirement accounting, No. 37, where it says:

Retirement accounting, in which the book values of assets are charged out to operating expense at the time the assets are taken out of service, is the procedure followed in respect of the Canadian National Hotel Department.

Is that statement made without any limitation? Consider the Chateau Laurier. When the time comes for the Chateau Laurier's abandonment, will the whole cost of it come out of depreciation?

Mr. GORDON: That is the system at the present time, yes sir.

The CHAIRMAN: Are there any further questions on hotel operations?

Mr. BROWNE: I have one question about the Newfoundland hotel. Was there any capital cost charged in making up that estimate, or was that just the difference between income and expenditure?

Mr. GORDON: It was purely an operating figure. There was no capital cost charged up in that, at all.

Mr. MACDONNELL: Before we leave "Hotel Operations", there is a matter I wish to bring up and one which was brought up in the House of Commons where I was advised that I should bring it up here. I would like to read what the Right Hon. Mr. Howe said in the House of Commons. He was quite emphatic about it and these were his words at page 784:

If my hon. friend wants to know why this man was transferred, he has the privilege of talking up his complaint in committee on railways and shipping, and if he does not follow up in the committee I will be there to remind him to do so. It is his duty to find out. He can demand the facts; he can demand the files on the man; he can demand the operating records of the hotel. He can go to the bottom of this matter, and certainly it is his duty to this parliament to do so.

The Minister of Transport also, although not in quite such emphatic tones, suggested to me that this was the proper place for me to come. On December 15, at page 657 of *Hansard*—I do not know if it is necessary for me to read it.

Hon. Mr. CHEVRIER: I wish you would read all the statement which I made in the House of Commons in answer to my friend from Kamloops, if you are going to put it on the record.

Mr. MACDONNELL: I am reading what you said to me and you can go on from there. This was on December 15, 1952, at page 657 where the minister said:

(Mr. Chevrier) So that my friend has his answer there, and I ask him to accept that answer. Now, then, if he does not accept the answer let me make a suggestion to him, and it is this. There is a committee appointed by this house to deal with the affairs of the Canadian National Railways. He is a member of that committee or at least he was a member during the last session of parliament. He may appear before the committee and inquire himself from the officers of the Canadian National Railways what the facts are surrounding this case, and that is really the place where he should get his information, not in this house. It is the policy of this house, established by this house and followed by governments of the faith to which my hon. friend belongs, for many, many years, namely that in matters concerning the internal management of the Canadian National Railways, there should be no interference. If there is any question that comes up, it can be asked or dealt with in the committee on railways and shipping.

Hon. Mr. CHEVRIER: I certainly would not want to withdraw anything from that statement.

Mr. MACDONNELL: I remember the statement the minister refers to, but I am sorry I have not got it here with me, in which he made something like this statement, but then, I think, added some words to indicate it would be in the ordinary course of the policy that is followed in regard to these matters in committee.

Hon. Mr. CHEVRIER: My statement was this, that the matter was one for the committee to determine.

Mr. MACDONNELL: Perhaps I can say what I have to say and then the committee can determine. I do not need to tell you, Mr. Chairman, I do not find this the easiest task in the world, but it is my duty to bring the matter before the committee. When I first raised this question in the House of Commons, I said I was bringing it up not merely because of the injustice to a faithful servant of the railway but because I believe that this gross injustice was the result of political interference and pressure.

I wish to make it clear that the beginning of this business so far as I am concerned was the reports carried in the *Winnipeg Tribune* which made it clear that it was a spokesman for the Fort Garry Hotel employees who labelled Mr. Pitt's move to Brandon an "unjust" move.

My information is that Mr. Pitt was widely respected and liked among his fellow employees in the Canadian National service, and that there is a widespread resentment among his fellow employees at the treatment which he has received.

Apart from other reasons for believing that there was political interference—and I have much more reason to believe it now than when I spoke last December — the story of the events and correspondence which I shall read in my opinion makes it impossible to conclude that an administrator of the quality of Mr. Gordon could suddenly of his own motion have treated in this way a man with many years service in the railway, a man widely respected in Saskatoon and in Winnipeg, a man who on Mr. Gordon's own statement, as I shall show, was brought from the Bessborough to the Fort Garry on the basis of successful performance at the Bessborough and who on the witness of competent people substantially improved the position of affairs in the Fort Garry during the time that he was there.

The CHAIRMAN: Are you quoting from the *Winnipeg Tribune*?

Mr. MACDONNELL: I am not quoting now. I am making my own statement.

Mr. JAMES: He is quoting from Macdonnell!

Mr. MACDONNELL: The minister has said regarding the information refused in the House of Commons on motion of Mr. Diefenbaker, "That information can be asked from the president of the Canadian National Railways and I say this to my honourable friend, he will get at that committee all of the information that it is entitled to get in accordance with the practice that has been followed in this house."

Hon. Mr. CHEVRIER: I still have nothing to retract from that.

Mr. MACDONNELL: I am not asking the minister to retract.

Hon. Mr. CHEVRIER: No, but you look at me as if I had done something that I should not have done. I wish you wouldn't do that.

Mr. MACDONNELL: That is quite unintentional.

Mr. POULIOT: Mr. Macdonnell cannot pay Mr. Chevrier any better compliment than to quote him.

Mr. MACDONNELL: I think it is the most important speech I ever made because it concerns the welfare of another man, and I promise never to read again.

Mr. POULIOT: I do not want to be misunderstood. What I said was that I do not think you could ever pay a greater tribute to Mr. Chevrier than to read his speeches.

Mr. MACDONNELL: Oh, Mr. Pouliot, it is only a Frenchman who could utter a compliment like that!

I want to make a relation of the events in this matter.

Last September, when the Prime Minister went to the Fort Garry Hotel in Winnipeg, and just before the Prime Minister was to arrive, I believe the day before, the hotel had a wire from Mr. Pickersgill asking the reservation of a double room at minimum rate. When Mr. Pickersgill arrived he was told that the hotel could not supply him with a room such as he requested in his telegram, and accordingly was notified that he could occupy one of the rooms which had been reserved for the Prime Minister. The management asked him to be out of the room for nine o'clock in the morning or before the Prime Minister arrived. The next incident was a wire from a Mr. Munro. I understand he is a member of the organization of Cockfield-Brown and was travelling with the Prime Minister as a public relations expert. My information is that the wire was signed "Prime Minister's Party" and it asked reservations for three people — Mr. Munro himself, the Hon. Mr. Mayhew, and a third. When this wire arrived the hotel was not in a position to make the reservations asked for, and accordingly accommodation was found for these three elsewhere. Mr. Pickersgill and Mr. Munro both scolded the management for not having this accommodation.

I now come to the Prime Minister's part of the story. The exact hour of his arrival was not certain, but Mr. Pitt arranged with the elevator operator — the hotel is rather short of elevators, I think it has only two, which is a small number for such a big hotel — to try to have a car in readiness on the Prime Minister's arrival. Mr. Pitt, the manager, stationed himself on the ground floor waiting for the Prime Minister, who arrived with the Hon. Mr. Campbell, the Premier of Manitoba.

As soon as the Prime Minister was in the lobby a lot of young Liberals who had been waiting to see him crowded around and Mr. Pitt, though in readiness, did not force his way through this group of the Prime Minister's supporters. Meanwhile, it was difficult to keep one elevator out of action in waiting and when the informal reception was over and the Prime Minister and his daughter were ready to go to their suite, there were six people in the elevator which took the Prime Minister to his suite. This provoked an outburst on the part of Mr. Pickersgill who told him he did not know how to greet the Prime Minister and, in particular, said "You don't know anything about running a hotel". Actually, Mr. Pitt had taken every precaution, including putting a special mark in the reservation book indicating that the person concerned was a V.I.P.

The next development so far as Mr. Pitt was concerned was that he got a message from the head of the hotel services, Mr. R. Sommerville, and went out to meet him at the airport. His chief told him on the way in that he was "just here to do one job", "an unpleasant job", "to demote you". He then explained that Pitt was to be sent to the C. N. Hotel in Brandon with a reduction in his salary. The reason given was that he didn't know how to greet the Prime Minister, that he didn't take proper care of the Prime Minister and the cabinet minister. He further advised Pitt that he was going to be moved to Brandon. Pitt said "I want a hearing". The answer was, "I am here to carry out instructions".

Pitt said "I am going to write asking for a hearing". The answer was "The president won't see you". Pitt then wrote the president, Donald Gordon, asking for a hearing, but did not hear for 10 days. He then communicated further and got a reply from Mr. Gordon in which he said he would see him. When he saw Mr. Gordon, Mr. Gordon said that he knew all about it, that the decision had been made, and that he backed up his staff. Then he added "Pitt, you have been a good soldier, you be a good soldier now". Pitt complained that there had been no investigation and that "We know all about it". Pitt said, "I am not going to take a \$2,500 cut". Gordon said "You go to Brandon; do what you are told and you won't get a cut in your pay".

The CHAIRMAN: I don't like to interrupt you, but I assume, and I hope correctly, that you are taking the responsibility for the facts that you are reciting?

Mr. MACDONNELL: I believe them to be true, and I have taken steps to verify them.

Mr. POULIOT: Just a moment. This seems to be hearsay.

Mr. FULTON: Mr. Macdonnell is dealing with the question; let him finish.

The CHAIRMAN: I take it, Mr. Pouliot, that Mr. Macdonnell is making a statement of what he believes to be the facts as a groundwork for certain questions that he is going to ask Mr. Gordon, and all I wanted to be assured of was that Mr. Macdonnell was assuming responsibility for the accuracy of the statements.

Mr. MACDONNELL: I am taking the responsibility for the statement, but if there is any question of the committee doubting me I shall ask to have Mr. Pitt called before this committee; we will get the star witness here.

The CHAIRMAN: Regardless of whether the facts are correct or not correct, I want it on the record that you are taking responsibility for the facts you are reciting.

Mr. MACDONNELL: That is right. I have not done this lightly, Mr. Chairman; I have only done this because I believe it is the proper thing to do.

The CHAIRMAN: I am not suggesting you have, and I don't want you to take any offence. It was my duty to inquire on this and find out from you that you are taking the responsibility for the facts which you are stating as facts. They are all hearsay from the standpoint that they are not being given by way of direct evidence, and I wanted that assurance. I have that assurance and so far as I am concerned, carry on.

Mr. MACDONNELL: Thank you, Mr. Chairman. I understand fully why you say what you have, and I wish to repeat that on any question I am not going to rely on this, I am going to ask this committee to ask Mr. Pitt to come here.

The CHAIRMAN: You fully appreciate the fact that you are making a statement of fact and someone must take responsibility, and no member should make statements of fact unless he is prepared to back them up.

Hon. Mr. CHEVRIER: And you are also making statements of facts of a witness who is here. You have charged one of the witnesses here with certain statements as I have heard them read.

Mr. MACDONNELL: It has come to me from responsible quarters, and I am prepared to accept it as such, and if it turns out to be wrong I am prepared to accept the consequences, but I am telling the committee if there is any question about it that I am ready to ask Mr. Pitt, who is ready to come.

Pitt said he would think about it and returned to Winnipeg. The labour union men wanted to hear his story and also the *Tribune*, but he refused to talk. The labour men told him they resented political interference in the management of the operation, though Mr. Pitt had had a good deal of

controversy with the hotel union and had reduced the staff a good deal, but nevertheless they respected him for the way he carried out his undertakings.

Now, I do not think I need to read again, because I did put it on *Hansard*, the quotation from the *Winnipeg Tribune*. The *Winnipeg Tribune* set out that, and perhaps I had better read this from the *Tribune* of November 13, 1952:

The *Tribune's* report of the dismissal of Robert S. Pitt from his position as manager of the Fort Garry Hotel, and his subsequent transfer to Brandon, is chiefly important because of the one big question it raises in the public mind: Is there political interference in the management of the C.N.R. or its hotel system on the part of government functionaries close to the Prime Minister?

And then I skip and read another paragraph:

Was Mr. Pitt given any kind of a fair trial? Were the complaints against him and his hotel investigated? There is no evidence that we have been able to uncover that the answer is in the affirmative to either of these questions. Rather, the answer seems to be that the hotel manager was removed from his job without proper investigation because someone in the government or close to the government had thundered. It will be a bad state of affairs for the Canadian National Railways if it is saddled with government interference in management.

Hon. Mr. CHEVRIER: Now, Mr. Macdonnell, while you are reading that I hope you will be good enough to put in the rest of it.

Mr. MACDONNELL: The rest of this editorial?

Hon. Mr. CHEVRIER: Yes, and not only that editorial, but all other editorials; for instance, the article you have there in the *Winnipeg Tribune*, which is dated November 13, which goes on to say that J. W. Pickersgill, Clerk of the Privy Council and Secretary of the Cabinet, was not among those directly involved.

Mr. MACDONNELL: You are not reading from the same thing I quoted from.

Hon. Mr. CHEVRIER: I am reading from the *Winnipeg Tribune* of November 13.

Mr. MACDONNELL: What I am reading is an editorial. I was not reading the news. I have put some of these on *Hansard* already, but may I finish? There is nothing I want to run away from. Perhaps you will let me make my statement?

Hon. Mr. CHEVRIER: I am sorry if I interrupted you, but I thought you were reading from the story of November 13, and having read a portion of that I thought you should read the balance of it.

Mr. MACDONNELL: I am reading from the editorial. I had a letter sometime after my speech in the House of Commons, from a gentleman in Saskatoon who is not known to me but who is a great friend of Mr. Pitt and who had known Mr. Pitt when Mr. Pitt was at the Bessborough, and this man, who is H. J. Haskamp, of Saskatoon, sent me some correspondence which he had had with Mr. Gordon, and I would like to read it. This is a letter of November 17, 1952:

Mr. D. A. Gordon,
President,
Canadian National Railways,
Ottawa, Canada.

Dear Sir:

Enclosed please find clipping from the *Saskatoon Star-Phoenix*, dated November 15, 1952, regarding Mr. R. S. Pitt's transfer from The Fort Garry Hotel in Winnipeg to The Prince Edward Hotel in Brandon, Manitoba.

I have read in the newspaper wherein you state that such transfers are quite the normal procedure in the C.N.R. Hotel System. I know that this is so in the cases of managers moving up to better positions as they become available, i.e., through retirement, illness, etc. However, transferring a manager of The Fort Garry Hotel to the poorest hotel in the system cannot be construed as anything else but a very bad demotion. Mr. Pitt's great capabilities as a hotel man can certainly not be used to the greatest advantage in a small city such as Brandon.

Mr. Pitt does not know that I am writing this letter, as I feel that he might ask me not to. My feelings are that it should be written, with or without his knowledge.

Those of the general public in Saskatoon, who have had occasion to do business with Mr. Pitt, have a very high regard for him. It was shown on numerous occasions, one of the most outstanding being a farewell dinner given him by the Saskatoon Club. This club's membership includes most of Saskatoon's business leaders, and there was an unusually large turnout for this dinner in his honour. The sentiment was, 'Sorry to see you go; congratulations on your promotion; and continued success in your future.' You may well imagine our consternation on hearing of his demotion.

I own and operate The Senator and The Western Hotels in Saskatoon. I have been on the Committee for Reservations, with Mr. Pitt as chairman, on many occasions for conventions, being held in our city. His untiring efforts and unusual ability in this direction contributed greatly to the success of these conventions. One of these in particular, The International Convention of the Lutheran Church, brought well over five thousand people to our city, the largest convention we have had to date. Mr. Pitt did a masterful job on this occasion, and was given the heartfelt thanks and congratulations of the Lutheran officials.

I feel certain, sir, that if you personally investigated his case thoroughly, you would find that an injustice, a very grave injustice has been done.

I speak as a Canadian business man, and not as the friend (which I am) of Mr. Pitt. I often wondered, in my associations with him, how a mere employee could be so very conscientious and sincere about his job. To him nothing else mattered as much as his work. I can't believe he would let the Hotel System down. Not Mr. R. S. Pitt.

Please, sir, in the interest of the Canadian National System of Hotels, and of the Canadian public, give this matter your gravest consideration.

Yours sincerely,

H. J. Haskamp.

To this Mr. Gordon replied on November 25:

Dear Mr. Haskamp:

This will acknowledge your letter of November 17th, making known your views regarding the recent transfer of Mr. R. S. Pitt from Winnipeg to Brandon.

What you have said confirms my information about the work of Mr. Pitt when he was manager of the Bessborough Hotel. It was on the basis of this record that he was selected to manage the Fort Garry, where certain services had been deteriorating.

Mr. Pitt remained in the Fort Garry post for more than a year when, further and faster improvement being considered necessary, the general manager of hotels recommended and was authorized to arrange a general shift of managers which involved Mr. Pitt's transfer to Brandon.

At the time, Mr. Pitt had a meeting with me here and he was told of the reasons that prompted the decision of the general manager of hotels. He was also assured that he would be given every opportunity to demonstrate his capacity for advancement in the future.

In thanking you for writing me, I would like to reiterate my statement to the press, that the changes referred to were not made as a result of a complaint by either the Prime Minister or in his behalf.

Yours sincerely,

(Sgd.) D. Gordon.

Mr. Haskamp replied to Mr. Gordon on December 6:

Mr. D. A. Gordon,
President,
Canadian National Railways,
Ottawa, Canada.

Dear Sir:

Thank you for yours of November 25th answering mine of November 17th.

Enclosed please find an editorial from the Saskatoon *Star-Phoenix*.

Regarding your letter of November 17th. Is it not true that in the little more than a year of Mr. Pitt's management, the Fort Garry Hotel has shown a marked improvement? I have had numerous comments from guests of ours, who are also guests of the Fort Garry. They all say the hotel has changed for the better during the past year.

I believe Mr. Pitt brought back quite a lot of business, lost by the former management. I know of one good account, namely Henry Birks Limited, that had transferred their business to the Royal Alexandra in Winnipeg. Mr. Pitt retrieved that business and Mr. Henry Birks stated to his Saskatoon manager that he would like to continue doing business with the Fort Garry.

You may question my right to continue my protests on Mr. Pitt's behalf. However, I feel that a man with your spendid record, gained in handling the difficult Wartime Prices and Trade Board, and the reputation you have achieved as a strictly fair man in labour relations, would not condone anything like the petty jealousies mentioned in the enclosed editorial.

That is an editorial from the *Star-Phoenix* which I have not got at the moment. The letter continues:

I had thought, up till now, that this angle was only my private opinion. Apparently the opinion is not at all private. If the general manager of hotels has, through personal animosity, grasped at an opportunity to demote Mr. Pitt unfairly, it is my contention that he is not fit for his job!

The morale of the whole system is jeopardized if even the slightest indication of this situation exists. I feel sure that you would not tolerate this for a minute.

In closing, I must say that it is a most difficult situation. However, I feel that you, in keeping with your record in the past, will solve it in an unbiased and fair manner,

Very sincerely,

H. J. Haskamp.

Mr. Gordon replied to that on December 12:

Dear Mr. Haskamp:

Your letter of December 6 has further reference to the transfer of Mr. Pitt from Winnipeg to Brandon.

As mentioned in my earlier letter, Mr. Pitt requested a personal interview with me, claiming that he had been unjustly dealt with. I was glad to have that opportunity to go over the circumstances of the

case with him. I reviewed with him a number of criticisms against his management and quite frankly told him of the reasons for our dissatisfaction. He was then offered an opportunity to go to Brandon, which he accepted.

It is not true, as intimated in the newspaper editorial attached to your letter, that petty jealousies had anything to do with Mr. Pitt's transfer. It was upon the recommendation of the general manager of hotels that he was appointed to the managership of the Fort Garry and if he gives a good account of himself at Brandon you may depend upon it that he will receive consideration when subsequent changes are in prospect.

Yours very truly,

D. Gordon.

Now, Mr. Chairman, I have put that statement before you. There was a resolution moved in the House for papers, and I propose to move a similar resolution here, but I wish to repeat that I am also requesting the committee—and I suppose I should do that by resolution—to ask Mr. Pitt to come here. I wish to say that and I assume that of course if Mr. Pitt comes that will involve Mr. Sommerville coming to, and quite frankly my belief is that the correspondence before us will show that Mr. Sommerville believed that Mr. Pitt thought Mr. Gordon had received complaints of the handling of the Prime Minister's party. I am not saying who it came from, but I believe it will be shown that Mr. Sommerville believed that Mr. Pitt thought Mr. Gordon had received complaints of the handling of the Prime Minister's party. Now, Mr. Chairman, I know that in our party strife there is sometimes a good deal of cut and thrust but I submit to this committee of fair minded men that this has nothing to do with party strife. This is a case of a man—

An Hon. MEMBER: Not much.

Mr. MACDONNELL: This case is before this committee. These are unsolicited letters from this man Haskamp who was a competitor of his in Bessborough, Saskatoon. He was in a position to know his work. I submit that prima facie this is a case where he has suffered unjustly and he is a man who, incidentally, suffered in the service of the country, although, if he were not a good man, that should not be taken into account. Therefore Mr. Chairman, I wish to move:

for a copy of all letters, telegrams, and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then manager of the Fort Garry Hotel in Winnipeg concerning complaints as to allotments of rooms to Federal Ministers of the Crown in the said hotel, or as to the conduct of Robert Pitt in his discharge of his duties, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints since the first day of September, 1952, and to date.

Can I make two resolutions at the same time?

The CHAIRMAN: Yes.

Mr. MACDONNELL: Then I also move that Mr. Pitt and Mr. Sommerville be asked to appear before this committee.

The CHAIRMAN: There is just one question I would like to ask you Mr. Macdonnell. You read the letters rather rapidly, and I want to know whether I grasp the meaning of the second letter which is that this hotel proprietor apparently referred to some personal animosity which he assumed existed between the manager of the C.N.R. hotel and Pitt.

Mr. MACDONNELL: He did say that.

The CHAIRMAN: May I have an opportunity of reading that again?

Mr. MACDONNELL: Yes.

The CHAIRMAN: It was so totally different from the rest of your presentation and that is why I wanted to read it again. That would indicate that the underlying reason for the motion was totally different from the one which you outlined in the earlier part.

Mr. MACDONNELL: Well, Mr. Chairman, there is the evidence and I bring it before you. Sometimes there may be two causes.

Mr. MUTCH: And one is political.

Mr. KNIGHT: When the resolution is put I would like to have the privilege of saying a word very briefly in regard to it.

The CHAIRMAN: I think there should be a full discussion in regard to the matter.

Mr. GILLIS: Could I ask you a question as a member of this jury?

The CHAIRMAN: Yes Mr. Gillis, but before you do I am not having much luck in finding the letter I was looking for.

Mr. GILLIS: This is a case for a jury. Would it not be in order before you pass any resolutions to determine whether Mr. Macdonnell has established a case or not. In listening to him I would judge that Mr. Gordon now is the accused.

Mr. GORDON: I agree.

Mr. GILLIS: He not only accuse Mr. Gordon of acting as an underground agent for the government in sanctioning the dismissal of Mr. Pitt, but he also makes accusations that Mr. Gordon was countermanding orders he had for a reduction in salary. Pitt was to receive a \$2,500 reduction in salary, and Mr. Gordon said "go to Brandon and there will be no reduction." Before we take any action in the matter of motions and so forth, if a man is on trial he has a right to a hearing. Mr. Macdonnell has made his case. He has been given ample time and I think in fairness to Mr. Gordon he should be permitted now to tell us his story and after he has finished we can decide whether Mr. Macdonnell has established a case and if it is necessary to call any star witnesses.

Mr. MACDONNELL: I wish to say one thing.

The CHAIRMAN: May I have a minute now. The paragraph was read rather quickly and the paragraph I refer to is in the letter from Mr. Haskamp to Mr. Gordon dated December 6th. It reads this way:

If the general manager of the hotel has, through personal animosity, grasped the opportunity to demote Mr. Pitt unfairly, it is my contention that he is not fit for his job.

Mr. MACDONNELL: In view of what Mr. Gillis has said I want to add this. My own belief, and this is perhaps not of any interest to the committee, is that Mr. Gordon did what any good man would do. He backed up his subordinate. I had to bring this matter before the committee and I had to read these letters and give the facts as they came to me, but I want to make it clear that my complaint is, as I said in the House of Commons, not against the action which I believe was taken by and on behalf of the government or members of the government—and I make it clear that I do not think Mr. St. Laurent had any part or parcel of it, I cannot believe that for a moment—but I do believe some of the hangers on threw their weight about and they carried more weight than they should have done. But I wish to repeat that I agree with the statement made in that letter about Mr. Gordon's position. I think he has been in the unfortunate position here of having to back up a man whom, from all the evidence I have, I consider to have behaved improperly.

Hon. Mr. CHEVRIER: Mr. St. Laurent was not there for most of the time when this complaint you speak of took place. In the second place, the document to which I referred earlier—the news item in the *Winnipeg Tribune*—seems to have absolved some of the men you have charged here. And in the third place, now you seem to blame the government. Whereas, you have nothing against Mr. Gordon and in the House it is just exactly the opposite.

Mr. MACDONNELL: No. In the House I brought this up because I considered it a piece of political interference. I did say I found it difficult to follow Mr. Gordon when he said this move was in the ordinary course of hotel practices.

Hon. Mr. CHEVRIER: I do not want to stop you for a moment nor do I want to interfere with any right you have as a member of this committee to ask questions, but I am wondering within myself whether this is the proper practice to follow. I have been a member of this committee now for eight years and during that time this is the first time I have heard a matter such as this placed on the record.

Mr. MACDONNELL: This is the first time it has happened.

Hon. Mr. CHEVRIER: I think you have the right to ask the questions which would normally arise, but you have put on the record here a case which is based on hearsay in the same manner which I in my reply in the House charged you had.

Mr. MACDONNELL: And I will ask you if anything I had stated was incorrect and you repeated it was hearsay. In a sense everything in the newspapers is hearsay.

Hon. Mr. CHEVRIER: I said it was not only inaccurate but was also hearsay.

Mr. MACDONNELL: You only said it was hearsay.

Hon. Mr. CHEVRIER: It is inaccurate. The committee has allowed what constitutes hearsay information read in that statement of Mr. Macdonnell's.

Mr. CHURCHILL: Are we going to hear hearsay?

Hon. Mr. CHEVRIER: I think he himself said I would have the opportunity to put on the record items in the *Winnipeg Tribune*. I am quoting from an article used by Mr. Macdonnell himself. On January 13th the *Winnipeg Tribune* carried this article which I will not read in full, but part of it said this. I think I should be allowed to put it on the record.

Mr. BROWNE: Certainly.

Hon. Mr. CHEVRIER: Well, let me do it.

Mr. POULIOT: If it was good for Mr. Macdonnell why isn't it good for Mr. Chevrier?

Hon. Mr. CHEVRIER: On Nov. 13, the *Winnipeg Tribune* carried this article:

There was similar confusion about rooms for other big-wigs who were in Winnipeg at the same time.

J. W. Pickersgill, clerk of the privy council and secretary to the cabinet, was not among those directly involved. He stayed two nights in Winnipeg, one by pre-arrangement at the home of friends, the other at the Fort Garry.

No formal complaint was made by Pickersgill or anyone else. Comments on the service at the Fort Garry were, however, made to C.N.R. officials, including Gordon, informationally and privately by a number of people in the prime minister's party. Pickersgill may have been among these.

Then in the *Winnipeg Free Press* I find this news item:

Later Wednesday George S. Jones, special representative of the C.B.R.E. denied that any protest had been made and said a statement would be issued Thursday. He gave no indication of its contents, however.

Now, that is directly opposite to the charge you made in the House and repeated here today.

Mr. MACDONNELL: Not in the least. I read that statement in the House and said there was a statement made on behalf of the union. I did not say it was made by a senior official.

Hon. Mr. CHEVRIER: But the union made no protest. It is just a news story.

Mr. MACDONNELL: No, read on—

Hon. Mr. CHEVRIER: I have just read that no formal complaint was made.

Mr. MACDONNELL: I will do a little reading now.

Hon. Mr. CHEVRIER: If you will allow me to continue. I think you indicated you had finished your statement.

Mr. GILLIS: Rested his case.

Mr. FULTON: No, no, he finished a part of his statement.

Hon. Mr. CHEVRIER: I do not know whether this procedure is correct and so that you might not think you are being interfered with unduly. I am not going to challenge the procedure although I do not think it is the correct procedure. You have not asked any questions of the witness.

Mr. MACDONNELL: What do you mean, witness?

Hon. Mr. CHEVRIER: The President of the Canadian National Railways.

Mr. MACDONNELL: The man I want to see here is Mr. Sommerville. I have asked for documents which I think will considerably increase the knowledge of this committee.

Hon. Mr. CHEVRIER: The president of the Canadian National Railways is now the witness and I think he can take care of himself. If Mr. Macdonnell wants to ask him any questions, go ahead.

Mr. MACDONNELL: Mr. Chairman, I understand you are the chairman of this meeting and not the minister. I have moved two resolutions and I have tried to make a prima facie case for the resolutions I have moved, and incidentally I have said when questioned as to whether my facts were correct, if there is any question about that, get Mr. Pitt here; he will be glad to come here.

The CHAIRMAN: I understand I have the responsibility of chairing the committee and I take my responsibility rather seriously. I fully appreciate the fact that eventually I will have the responsibility of ruling, and while I do not enjoy it I certainly will not shirk the responsibility.

We have a motion before the committee which you have moved as to which I should express an opinion as the chairman as to whether the motion is in order. Now, the Speaker of the House adopts the practice of allowing members to speak to the point of order. I have allowed Mr. Macdonnell to speak to his motion and I think that is as far as I should go. I do not think I should allow other members of the committee to speak to the motion until the committee decides as to whether the motion is in order. I will hear any representation that any member of the committee wishes to make as to whether the motion is in order. There will be no further discussion as far as I am concerned to the motion, but simply to the point of order, and then after I have had the opinion of all the members of the committee I will make my ruling.

Is there any member of the committee who wants to speak to the point of order?

Mr. GILLIS: What is the point of order?

The CHAIRMAN: Whether Mr. Macdonnell's motion is in order.

Mr. KNIGHT: I do not know what are our authorities on points of order in this particular committee.

The CHAIRMAN: You have been a member of this House for quite some time and you know some motions are made before the House and some before the committee which are not in order.

Mr. KNIGHT: I can quote an authority of the Minister of Transport who stated to me through the chair that when I spoke on this matter in the House that the proper time to bring this matter up was in the Railway Committee of which I was a member and at which various witnesses might be called and whom we might have an opportunity of questioning. I came here in perfectly good faith, taking the minister's word for that, that we would have here an opportunity to bring this matter out in the open. May I say, personally, I am making no charges against anyone at the moment. My only interest in this matter is, let me say frankly, largely the good name of the Canadian National Railways.

The CHAIRMAN: All I am interested in is what opinion you have on the point of order.

Mr. KNIGHT: Then I am quoting the minister as having informed me in the House that witnesses could be brought and this is where we would have an opportunity to get at the facts whatever those facts may be.

Mr. MUTCH: Even if it is something the committee is not empowered to look into?

Hon. Mr. CHEVRIER: I think that the president of the Canadian National Railways who is in the witness box should be allowed to make a statement.

Mr. MACDONNELL: If you are saying I put him in the witness box, I wish to deny it.

Hon. Mr. CHEVRIER: He is very much in the witness box.

Mr. MACDONNELL: I hope the Minister of Transport is going to argue I am entitled to these, because he is the one in the House who said this is the place to get the information—not as firmly as Mr. Howe did. I would like to read what Mr. Howe said.

The CHAIRMAN: I take my position as chairman of this committee seriously and I think I have adopted the right practice up to date. I know if I were in Mr. Gordon's position I would be most resentful of the chairman of the committee that I had not been given an opportunity to answer. But I do not think, in deference to the Minister, the Hon. Mr. Chevrier, that that is the correct order of procedure. Mr. Macdonnell made a motion and had a right to speak to it before making it and it is now the duty of the chair to rule whether it is in order or not.

Mr. FULTON: One word on the point of order, Mr. Chairman, before your ruling. I think the thing to be decided here is whether or not these documents called for are properly admissible. I take it that is the point on which you wish to hear argument. The argument has always been advanced in the House and committee against the production of documents in the possession of the management of the railways, that those documents are entirely the concern of internal management and as such are privileged and should not be read before the committee if the management does not wish to do so. The minister when arguing this matter in the House placed his reliance, and I think I am fair in saying he went back and placed his main reliance on precedents built up since the statement of Mr. Meighen in the 20's on this same subject of production of documents. I submit to you that that statement of Mr. Meighen is authority only for the proposition that documents are not to be produced for the information of the House when to do so would reveal details of internal management which might be of advantage to competitors. That was the principle which Mr. Meighen established, and I submit that was as far as the principle goes.

The CHAIRMAN: I think there was another principle quite as clearly established before this legislation was passed and I would not be fair if I did not indicate that to you.

Mr. FULTON: I figured that you would mention that principle.

The CHAIRMAN: The other principle is quite as important. It is that there was a firm intention of parliament at the time the Canadian National Railways was set up under corporate management instead of a management by a department of government, that it would have a totally different form of management than it would have under government, and that political interference would be removed.

Mr. FULTON: That is perfectly correct, and that is the other point I want to deal with. That was the object of setting up the Canadian National Railways in a corporate form of management, or one of the objects. But I submit that the same principle initiated by Mr. Meighen only went so far as saying that it was only the production of those letters which would be to the advantage of competitors which would be refused on those grounds. Now, he did say that there was a difference as of right, between our relations with the Canadian National Railways under a corporate form of management and our relations with a government department in the matter of obtaining that information. But as you have said, one of the purposes of setting it up with a corporate form of management was to obviate political interference in management.

Here we have a charge. I am not speaking about the merits of it, but we have a charge not against the management. I want to make that clear. It is a charge that there has been political interference with the management, the very thing that the corporate structure of the Canadian National Railways was set up to avoid.

The CHAIRMAN: That is not the motion before the chair.

Mr. FULTON: The motion before the chair calls for production of all documents, and I submit to you that it is only by getting those documents we are going to be able to be sure whether or not that charge is substantiated. And I suggest that a charge of this nature is of sufficient importance. It is a charge which indicates that the object of setting up the corporate structure is not being met, and that in fact political pressure is being brought to bear on the management, and that it requires investigation and the only way we can find out the truth or otherwise of the charge is by the production of these documents. Therefore on that basis, Mr. Chairman, I suggest that the second branch of the argument to which you referred a moment ago is met and in fact it becomes an argument in favour of producing the documents. I cannot see that these particular documents would be of any advantage to a competitor of the Canadian National Railways business. So I submit that both principles on which their production is being refused have been refuted.

Hon. Mr. CHEVRIER: The question of the production of the documents raises matters which were raised in the House. They were raised by Mr. Diefenbaker and I think by Mr. Fulton and also by Mr. Macdonnell. This is not the first time that matters of this kind having to do with the production of documents for one reason or another have been raised in this committee. They were raised I think two years ago when my friend from Kamloops asked me in the House if I was going to adopt the same attitude that I take on this occasion.

On that occasion the witness who was then the president of the Canadian National Railways was allowed to express his opinion as to the effect of the production of documents of that nature, and the effect it would have upon the management of the Canadian National Railways. And for that reason I thought we should at least hear the witness.

Mr. Gordon has been here now for at least one hour listening to this discussion and he has not been able to say a word. I think in fairness to Mr. Gordon, when we have listened to a former president of the Canadian National Railways offer his opinion in so far as the production of documents is concerned, I think Mr. Gordon should be allowed to say what his opinion is with reference to this.

Mr. GILLIS: That is just what I suggested in the first place. We are hearing one side of the story. And by dealing with this motion at the present time we are putting this committee in a pretty awkward position. Most of the members of this committee do not take a personal interest in this trouble at all and they know nothing about it. Mr. Macdonnell has put his story on the record and in my judgment Mr. Gordon is not only a witness, but he is in the prisoner's box, he is the accused. The whole onus has been shifted from the government to Mr. Gordon, and the accusation now is that he acted as the cat's paw of the government in pulling their chestnuts out of the fire. I think it is absolutely unreasonable to ask this committee to vote on this motion until such time as Mr. Gordon puts the other side of the story on the record. Then we will be in a position to determine whether or not we have to call witnesses. Therefore I am going to move that these documents be tabled until such time as Mr. Gordon is heard from. Then we will decide whether they are in order or out of order, but we want to hear the other side of the story first.

The CHAIRMAN: As I understand your motion, Mr. Gillis, you are putting it as an amendment to Mr. Macdonnell's motion?

Mr. GILLIS: It is an amendment to table these documents.

The CHAIRMAN: It is an amendment that before the motion is put Mr. Gordon should be heard.

Mr. GILLIS: That is right.

Mr. MACDONNELL: I understood you to rule that there would be no more discussion. I have no objection to Mr. Gordon speaking if you want to ask him to, but if you are hearing more comments on the admissibility of this motion then I would like to add a word.

The CHAIRMAN: My problem is this: We are dealing collectively with two totally different matters. One is a motion for the production of papers, and the other is a charge which you have made which I think strikes pretty seriously at Mr. Gordon. Mr. Gillis has indicated that he believes it to be fair to Mr. Gordon that he should have an opportunity of answering this charge before your motion for production of documents is put. Now my problem is this: I am fearful that Mr. Gordon in making his statement before a ruling of the chair is made may feel that he is obliged to go further than parliamentary practice requires him to go. With that warning, Mr. Gordon, if the committee is reasonably unanimous that they want to hear you, we will hear you now.

Mr. MACDONNELL: I have made a motion, Mr. Chairman.

The CHAIRMAN: You made a motion for the production of papers, but you also made a charge against the management of the railway. Now, if you had simply made the motion for production of papers without making that charge—

Mr. MACDONNELL: I am asking that the information on which the committee could make up its mind should be produced. It is not reasonable to have that now? I had to make a prima facie statement, and I am conscious of the difficulty I was in, but do we want to discuss the merits of this matter before we have the evidence on which to do it? I am asking for the papers. On the question that Mr. Fulton mentioned with regard to Mr. Meighen and the practice which has been followed, I think the Minister of Transport has

referred to it, but I suggest that that is a world removed from this. Those are cases where information which might injure the railway by reason of coming into the hands of its competitors should not be given. Now this, I suggest, is an unprecedented matter. There is no suggestion that this is going to injure the railway by getting into the hands of anybody else. It is a question of relations inside the railway itself and with the government, and therefore I suggest it would be common sense to have these statements before us and when the members know what they are, they will then be able to reach a conclusion. At the present time it seems to me that we are just trying to reach a conclusion without having the basis of reaching it before us.

Hon. Mr. CHEVRIER: Well, then, let us listen to the witness who is before the committee.

Mr. KNIGHT: The minister's former idea was that we should question the witness on this. I have a letter from the minister here, signed by himself, in which he says:

As it has been the practice in the House since formation of the Canadian National Railways, a committee will review again this year the affairs of that railway. You, as a member, will have the opportunity of seeking a reply to any question which you care to ask from the chairman and president, Mr. Donald Gordon.

And then I want to add these significant words, because there has been talk here about irresponsible statements:

It may well be that the reason for the transfer of Mr. Pitt, if made public, would react unfavourably to his cause.

I suggest that is a statement that should not have been made in the House of Commons or in any letter.

Hon. Mr. CHEVRIER: Then why don't you allow Mr. Gordon to deal with the matter? You are putting the thing on the record.

Mr. KNIGHT: I am not suggesting that you do not hear Mr. Gordon.

Hon. Mr. CHEVRIER: I suggest to you that you ask the questions. Let us deal with the first thing before the committee.

Mr. MURCH: I suggest, Mr. Chairman, that unfortunately we are getting into a hiatus because we have not one thing but three things before us. I suggest we are not going to get very far until we stop talking about the three things at once. Mr. Macdonnell makes a motion asking for documents touching on the case. In the course of the argument he gets himself involved in, what I agree, are serious charges against the president of the railroad himself. That is the second point. Then we had the third question, a motion by Mr. Gillis that we table this motion and do nothing about it until we hear from Mr. Gordon. I should like to suggest that with respect to these questions, whether or not these documents are to be tabled is one for decision by yourself in line with the practice of this committee, and the injustice or justice of the criticisms made of Mr. Gordon are irrelevant to that question. The only thing we have to decide is as to whether or not that is a proper motion. If you wish to reserve your judgment on that for the moment, we should then proceed to take the decision after hearing Mr. Gordon.

Hon. Mr. CHEVRIER: Well, then, why not hear Mr. Gordon and afford him an opportunity to reply to the charges which have been made against him?

Mr. POULIOT: Just one word, Mr. Chairman, before Mr. Gordon is heard. As I understand the question, Mr. Macdonnell's complaint is about political interference with railway management. The facts are obvious. There was a decision made with regard to Mr. Pitt by the management. Mr. Macdonnell suggests that it should be changed, under the pressure of speeches or state-

ments made by some members. Therefore, do you not think, Mr. Chairman, that the interference would be from Mr. Macdonnell rather than from the government, forcing them to change their decision about one of their employees. I never heard a thing like that before. Mr. Macdonnell should make himself the champion of interference instead of complaining about it.

The CHAIRMAN: I would judge that it is the unanimous wish of the committee that Mr. Gordon should have an opportunity of making such statement as he wishes to make at this time.

Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Before your motion is put, Mr. Macdonnell, I take it we are unanimous on that point, so I will ask Mr. Gordon, but I do want to warn him again, Mr. Gordon, if in making your statement you feel obliged to make any disclosures or any statements derogatory to Mr. Pitt, then I think you bring the matter to this committee and from then on I think it is before the committee. I do not think the present motion is in order for reasons I will give later, but the committee are unanimous in that they want to hear you. And with that warning, would you please now answer?

Mr. GORDON: Thank you, Mr. Chairman—I almost said thank God, Mr. Chairman. I only want to touch on the point of the production of documents. After I have done so and, if it is the committee's wish that I should answer questions further, I am prepared to do so. I wish to state very emphatically that it is the duty of the President of the Canadian National Railways to sit in judgment of cases affecting staff matters, and that I hear every day of the week—if not every day, certainly every week—from members of the clergy, service organizations, boards of trade, etc., making representations on behalf of this or that individual. Now, in my considered opinion any file affecting the service record of an employee should be held privileged. I state that on behalf of the employee in the first instance. From the point of view of the employee, his status and record of service is a personal matter. If these were to become available for examination and public disclosure it would be most unfair to the employee. There would be cases, for example, in which the management, after expressing dissatisfaction with the employee's services, had given such an employee a fair chance to improve himself. I am stating a general principle and I make reference to no particular person at the moment. Obviously if such an expression of dissatisfaction were made to parliament or to parliamentary committees then the employee's business reputation would be hurt and his efforts to redeem himself badly prejudiced. Public disclosure or discussion in a case of this kind would be an unjustifiable intrusion on personal privacy in my opinion. Moreover, an employee may at any time decide to move out of the service of the railway and seek to benefit himself in some other field of endeavour. This may well arise because of differences of opinion with the management about his ability, his discipline record, or any one of many reasons. In such circumstances the employee would obviously be considerably handicapped if that sort of thing were a matter of public discussion and seriously interfere with his opportunity for other employment. From the viewpoint of the management a most important principle is involved. In my judgment one of the fundamental prerogatives of management is its authority over staff. Management must be free to exercise this authority to employ, to train, to promote and to discipline. Management must have its decisions respected. If a disgruntled employee were permitted to go over the head of the management and to have cases of dispute reviewed, then the management's authority would be seriously damaged. Indeed, this would produce a situation of chaos since no one would know where final authority lay. Moreover, in the practical administration of a business of the size of the Canadian National, there is a good deal of interdepartmental memoranda

and correspondence necessarily of the frankest character. Instructions, criticisms and reports are filed and reviewed and personnel records in particular must be carefully built up. No self respecting management could contemplate a situation in which such data were to become available for public discussion. No business could be successfully operated on such a basis, nor could the railway expect to draw into its services men of character and ability if they were confronted with such distasteful conditions.

I have tried Mr. Chairman to show you the position from the standpoint of the employee. It would be most unfair that his personal file should be revealed in discussion under any circumstances. I have tried to show you that it would be an impractical situation from the standpoint of management if files of that character should be produced and become a matter for public discussion. If members of the committee now wish me to proceed further I will be glad to do so.

Mr. MACDONNELL: The shoe is on the other foot. Here is a case where an employee wishes to come and be heard.

Mr. FULTON: And have the letters produced.

The CHAIRMAN: If no one else wishes to speak to a point of order, I will now give my ruling.

Mr. BROWNE: I thought we had discussed all that.

The CHAIRMAN: We are now on a motion. We have heard from Mr. Gordon and I have had ample notice that such a ruling would be required and I have taken an opportunity to read the record on the debate in parliament at the time the Canadian National Railway setup was initiated by parliament in the session of 1919 and I would ask members of parliament and anyone in doubt to read the long debate which took place. I will not weary the committee with too much of it, but I would like to read one or two quotes. I am reading now from Sir Thomas White who made a long speech outlining the reasons why the government of the day chose a corporate management rather than management by a department of the government for our national railway system.

Mr. White said at page 2103 of the 1919 *Hansard*:

What the government is seeking to do as a matter of administration, with a view of promoting the highest efficiency and economy, is to constitute a board of directors, responsible to the dominion government, who will administer the affairs of the Canadian National Railway system and receive its revenue and cause to be properly paid out its expenditures in accordance with the practice which is adopted in efficient railway administration in all parts of the world.

I will read on in order that there will be no doubt. He went on to say on page 2104:

There is a further reason why it is necessary that we should adopt a joint stock system in administering these great railway properties. In the public mind the idea is firmly embedded that direct government administration and control of government-owned railways results in abuse through the exercise of political patronage. But in order to prevent the exercise of patronage in connection with a system of such great importance to Canada, it has been provided that instead of direct administration by the Government, the administration shall be through a board of directors consisting of representative and capable men in whom the Government, Parliament and the country have confidence.

Now, if members will take the trouble to read that debate there will be no doubt in your minds as to the fact that it was distinctly understood at that time why the Canadian National Railways was set up with a corporate entity.

The matter came up again for discussion in 1921 and Mr. Meighen's remarks have already been quoted. I will just remind you of one or two of them. You will find this stated at page 1181 of the 1921 session where Mr. Meighen said:

It was decided to try the plan of corporate operation; to give this system the same chance to succeed as a business enterprise that other rival or corresponding systems had the world over.

He went on to say:

Owing to the immensity of the system it would be wholly impossible for Parliament to do its work, if it were to attempt from day to day as part of its duties to review the operations of that system, and if the Government were called upon from day to day to account for this or that action of the board of directors in matters of daily operation of the road.

I need not deal with the question of competitive business because it cannot be argued in this instance that disclosure of facts would prejudice the competitive system of the C.N.R., but the point Mr. Meighen stressed is on page 1183 when, he said nothing should be done to impinge upon "that latitude and freedom of management that every successful business must have." And Sir George Foster made a speech in that debate and he in dealing with the matter at page 1210 of the 1919 Hansard had this to say: "It proves that the Government, having laid down its policy, divested itself from the patronage in connection with the railways and held the management liable for the administration, the appointment of its staff, the promotion of its men and the general working out of the system."

Now, what could be plainer than that? It was obviously the intention of the government of that time when they set up the Canadian National Railways that matters purely of management were to be left with the directors and there was to be no political interference at all.

Having read this in advance and studying the underlying reports which lead to the formation of the C.N.R. and the debate which took place, it is my opinion the general policy in regard to production of documents concerned with internal management of Crown companies is that these documents should not be produced. I cannot find any occasions on which this position has been seriously questioned and I have gone through the records. For all of these reasons I say, with the increasing number of Crown companies, I believe that the abolition of political patronage, and that the charging of corporate management with full responsibility with respect to the appointment and promotion of staff, is a feature of increasing importance. If Crown companies are established in order that certain public undertakings may be managed, as nearly as possible as they would be managed by private enterprise, and without the inevitable disadvantages of political interference, then it does necessarily follow that everything possible should be done to empower these Crown companies to successfully carry out their responsibilities without political interference. By political interference, I mean interference by politicians.

It is my opinion that the production of documents with respect to the Pitt incident should not be withheld on the ground that his information would in any way prejudice the competitive position of the Canadian National Railways, nor would the production of these documents assist their competitors.

However, on March 11 last the House of Commons this year did defeat Mr. Diefenbaker's motion for production and, rightly or wrongly, the inference which I draw from this vote is that it was a vote in support of Mr. Meighen's stand that we should not impinge upon "that latitude and freedom of management that every successful business man must have."

Therefore, for the above reasons, it is my opinion that the Canadian National Railways management are not obliged to produce any document or

any evidence in regard to the Pitt incident at the Fort Garry hotel, and if this ruling is sustained, this committee should not call any witnesses regarding the incident.

I should add, however, that my ruling does not prevent a voluntary statement by the president of the Canadian National Railways should he desire to make one, nor does it prevent him from producing any documents relating to the incident which he desires to produce. On the other hand, should the president make any statement or produce any documents regarding this incident, derogatory to Mr. Pitt, then it is my opinion that all documents relating in any way to the Pitt incident should, upon request, be produced, and any witnesses with knowledge of the incident would be compellable witnesses.

Mr. BROWNE: Mr. Chairman, you have come here with your judgment all written out.

The CHAIRMAN: I did.

Mr. BROWNE: And you asked us for opinions on points of order. I consider that to be a joke.

The CHAIRMAN: You have the right to your own opinions.

Mr. BROWNE: You wrote that judgment, Mr. Chairman, even before you knew there was going to be a resolution. I never heard of such a thing.

The CHAIRMAN: I was not born yesterday. I listened to the discussion in the House, and I have chaired committees for a few years.

Mr. GILLIS: Let us argue about it tomorrow.

The CHAIRMAN: If anybody questions the ruling, of course.

Mr. FULTON: Well, we appeal it, of course.

Mr. MACDONNELL: I appeal the ruling because it seems to me that while I do not wish to be disrespectful to the chair, we are now faced with a technical ruling which I think has no application whatever to these unique circumstances, wherein the man in question wishes to come himself. If I understand your ruling correctly, whether or not he can come is dependent on the action of the president of the railway, whether or not he makes a statement as to whether this man will be allowed to come and make his statement.

Mr. GORDON: To whom did Mr. Pitt make this request?

Mr. MACDONNELL: To me.

Mr. GORDON: I deny his right to do so. He should first of all come to me. He is an employee of the railway. Do you suggest to me for one moment that any person who is an employee of the railway has the right to go to some person outside the railway to have his case heard?

Talk about an absurdity. I do not think I have ever heard of a proposition such as that which has been made. There has been a suggestion of political interference with the management. Who is the best witness to answer that charge but myself?

Mr. FULTON: You will get questioned, you can be sure of that.

Mr. GORDON: But you are not letting me.

Mr. FULTON: Nobody has suggested that Mr. Gordon should not be asked.

The CHAIRMAN: Yes. You are one of those who stopped him.

Mr. FULTON: We did not press the point that the point of order should be decided first.

Mr. GORDON: I have been accused of having given in to political interference. I deny it. Do you suggest that Jack Pickersgill could scare me into removing a man from a hotel? Who do you think I am?

Mr. FULTON: Do you suggest that you are going to scare me?

Mr. GORDON: No, I am not.

Mr. MACDONNELL: It has been very difficult for me.

Mr. GORDON: I can imagine that your calling me a liar should be difficult in the light of our personal relationship. It certainly does not improve my opinion of your moral stature that you should make such an offensive charge against me. I do not like it. I will not be called a liar. After all, I have got some reputation in this country. I have had many jobs of public administration, and my integrity has never been questioned.

Mr. MUTCH: Mr. Chairman, I move that we adjourn.

The CHAIRMAN: There is a motion to adjourn, which is not debatable.

Mr. FULTON: This thing is ridiculous.

The CHAIRMAN: I have said that there is a motion to adjourn and it is not debatable.

EVIDENCE

MARCH 24, 1953

11:00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. MACDONNELL: Mr. Chairman, on a point of privilege. When Mr. Gordon asked me last night to whom Mr. Pitt had indicated that he was ready to come to Ottawa, I said it was to myself. I wish to amplify this statement to the extent of pointing out that the message from Mr. Pitt to me was relayed through a mutual friend in Winnipeg, a man in whom I have the utmost confidence.

I realized that objection might be taken to my unsupported statement and therefore communicated with Mr. Pitt through this mutual friend and have a message from him indicating his complete willingness to appear before the committee if requested.

I wish to make it clear that I am not retreating in any way from what I said last night but merely making the full details absolutely clear.

One further point of privilege. I presume everyone realizes that I did not call Mr. Gordon a liar. What has disturbed Mr. Gordon is that I said I could not accept the explanation that it was in the ordinary course of business to transfer a manager who had managed three of the company's largest and most important hotels, the Nova Scotian, the Bessborough and the Fort Garry, to a much smaller and less important hotel. I could not but regard this as a very serious demotion. I hoped that the above explanation of Mr. Pitt's transfer did not give an accurate account of Mr. Gordon's position and that a further statement might be forthcoming.

I wish to make it absolutely clear that in what I said my whole motive was to complain of government interference with the management of the railway and that I had not the slightest intention of attacking the management of the railway.

If Mr. Gordon chooses to regard what I have said as an attack on the railway management, I deeply regret this, but I cannot be deflected from attacking government interference and pressure by Mr. Gordon's mistaken reaction.

Mr. POULIOT: Mr. Chairman, dealing further with the question of privilege, I would like to refer to the proceedings of the Railways and Shipping Committee of last year, at page 45, where both Mr. Macdonnell and myself expressed our views about the duties and functions of Mr. Gordon as the head of the Canadian National Railways:

Mr. POULIOT: ...Speaking personally, I am for quality and not for quantity. The purpose of the board of directors is to advise the management and, as I see it, the more advisers we have the more difficulties we may expect.

Mr. MACDONNELL: Not with a man like Mr. Gordon; he keeps the directors in their place.

Mr. POULIOT: But Mr. Gordon is not the only man. We must have a board of directors to give direction to the board of management. The board of directors cannot have any say in the operation of the road so what difference does it make anyway.

Mr. MACDONNELL: Let me put it this way, Mr. Gordon; again, I don't want to appear to be interfering with the management; that is to say, I think the president and the executive are responsible. On the other hand, there are a great many conclusions which Mr. Gordon has to make which are very far-reaching and which I presume he brings to the attention of the board from time to time asking for their advice. And when I say I do not want the board of directors to interfere with management, I do not mean that they should not make decisions. They could make very important decisions, but they are decisions to be carried out by the president.

Mr. MACDONNELL: I don't think that was a bad statement.

Mr. POULIOT: No, but it was different from what you are doing now.

Mr. MACDONNELL: I don't think so, not at all.

Hon. Mr. CHEVRIER: Mr. Chairman, I would like to say a word on the point of privilege because I think my hon. friend is misinterpreting the whole attitude and the whole principle that we have followed not only in the House of Commons but also in this committee. I have not before me the statement read by my friend Mr. Macdonnell on privilege, but I did take down something to the effect that there had been government interference in the management, and since I am the minister responsible for the affairs of the Canadian National Railways in so far as the committee is concerned, I must immediately take issue with that statement. There has been, in so far as I am concerned, no interference whatsoever.

Some Hon. MEMBERS: Hear, hear.

Hon. Mr. CHEVRIER: Furthermore, I ask my hon. friend to believe this when I say that I had known nor heard nothing of the Pitt incident until a question was asked of me by Mr. Diefenbaker in the House.

Mr. MACDONNELL: When?

Hon. Mr. CHEVRIER: It was just after the newspaper report of November 13. The House met sometime in December, and I should think it was toward the end of December or perhaps early in January. I do not recollect, but in any event until that question was asked in the House—and that date is very easily ascertainable—I had known nor heard nothing of the Pitt incident. Now, then, there could have been, in so far as I am concerned, no government interference whatsoever.

Mr. KNIGHT: On a point of information, Mr. Chairman. That date must have been before December, because the minister's letter to me was written in December.

Hon. Mr. CHEVRIER: Yes, I have it now; it is November 25. And what my hon. friend Mr. Macdonnell is trying to do, contrary to the rules of the House and contrary to the rules of this committee, is to make a motion which is against all the precedents that have been established. Now, his motion—

Mr. FULTON: Mr. Chairman, is this a question of privilege or a point of order that is being dealt with by the minister?

Hon. Mr. CHEVRIER: I am dealing with a question of privilege in which the member indicated to me that there was government interference with management, and I am discussing this.

The CHAIRMAN: Mr. Fulton, I permitted Mr. Macdonnell, under the circumstances, to wander very far afield from the question of privilege. Now, in view of that I do think the minister should be permitted to make a statement without interruption.

Mr. FULTON: I merely asked whether it was a point of order or a question of privilege that he was discussing.

Hon. Mr. CHEVRIER: Now, the motion that Mr. Macdonnell made yesterday was:

For a copy of all letters, telegrams and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then manager of the Fort Garry Hotel in Winnipeg, concerning complaints as to the allotment of rooms to Federal Ministers of the Crown in the said hotel, or as to the conduct of Robert Pitt in the discharge of his duties, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints, since the 1st day of September, 1952, and to date.

Now, in the House of Commons in March of 1953, Mr. Diefenbaker moved the following motion:

For a copy of all letters, telegrams and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then manager of the Fort Garry Hotel, Winnipeg, concerning complaints as to allotment of rooms to Federal Ministers of the Crown in the said hotel, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints, since the 1st day of September, 1952, and to date.

At that time it was indicated in the House that the matter concerned the internal management of the Canadian National Railways. It was also indicated in the House that all matters having to do with interdepartmental communications and correspondence, and all matters having to do with communications between employees of the Canadian National Railways and the president and other executive officers of the railways were not producible because it had been the practice of the railways, and of the departments for that matter, not to make interdepartmental communications public. This policy is one of long standing and one which has been recognized by both Liberal and Conservative governments as essential to the successful management of the Canadian National Railways, and I do not need to repeat here what was said then, namely, that Mr. Meighen in a very strong statement indicated that that was the policy which should be followed. I think, too, that at that time it was indicated that it is not in the interest of the Canadian National Railways to give information which relates to the internal management of the system and which other competitors or other business organizations would not be required to produce; and then, again, it was certainly my impression that Mr. Diefenbaker rather agreed with that position, because earlier he had asked for the production of documents having to do with Central Mortgage and Housing Corporation, and my colleague, the Minister of Resources and Development, had quoted another paragraph, or another statement by Mr. Meighen in the House of Commons, and Mr. Diefenbaker in his reply seemed to argue—certainly that was my understanding—that while that does not apply to the Central Mortgage and Housing Corporation, I think there is a difference in so far as the Canadian National Railways is concerned, and I believe that perhaps it could not be made applicable to it. Now, the words of Mr. Diefenbaker can be found at page 2734 of *Hansard*, when he said this:

I would point out, Mr. Speaker, that Mr. Meighen was dealing with the Canadian National Railways and he stated it would be impossible to furnish parliament with the information, particularly in view of the size of the C.N.R. and the number of employees of that body.

So I conclude, by inference at least, rightly or wrongly, that Mr. Diefenbaker was then admitting the principle laid down by Mr. Meighen.

Now, then, I would like to go on just one step further and say that this committee is bound, I believe, in my opinion, by the ruling of the House. The House of Commons dealt with the notice of motion for production of papers, and the House of Commons decided by a vote, which can be seen in *Hansard*,

that this correspondence should not be produced. Then my hon. friend yesterday stated very emphatically that he was bringing this up because he thought it was his duty to bring it up. He was bringing it up and making it quite clear that there was no implication left in so far as the Prime Minister was concerned, that he had nothing to do with that.

Mr. MACDONNELL: I always said that. I said that in the House.

Hon. Mr. CHEVRIER: At page 575 of *Hansard*, December 11, Mr. Macdonnell is speaking, and I quote—he is dealing with complaints:

The first is 'that the Prime Minister and his party were not properly received at the hotel rotunda'.

. . . Now then, the second complaint is 'that there were no rooms immediately available for all the members of the party'.

A little further on:

The complaint apparently might be that Mr. Pitt did not force his way through the group in order to present himself to the Prime Minister; a sort of bucking the line technique.

And a little further on:

Here perhaps we find something which we can understand better. Here we may find some very important personages, at least in their own minds, who take themselves very seriously and who may have fancied that they had not been treated with all the deference to which they considered themselves entitled.

And a little further on in his speech, Mr. Macdonnell, at page 576 of *Hansard*, says:

Does anyone imagine that a man who had served for that length of time in that capacity would not know how to treat a Prime Minister or would not know how to treat appropriately the other people who were with the Prime Minister?

And still further on:

Nevertheless according to this record which, as I say, came from the labour people, he was demoted for that reason. I regret to say that the president of the Canadian National Railways gave a different reason. I regret that Mr. Gordon, for whom I have immense respect, gave this reason because I cannot accept it and I do not believe anyone in this House can accept it.

Now, Mr. Chairman, the chairman of the Canadian National Railways has denied that charge, he has denied that allegation publicly in the press, and he denied it here again yesterday, and I, as a responsible minister of the Crown, deny it myself and say that I had no knowledge of it, nor did I have any interference whatsoever in this matter. Now, then, I just put that on the record in passing because my friend seemed to indicate, oh the Prime Minister has nothing to do with this, but in the four statements I have read he is dealing exclusively with the Prime Minister as he goes along.

Now, if I may conclude what I have to say in this way. This committee in the past has made important decisions, and one of them is that decision which I have indicated that we have made, namely, that the Canadian National Railways hotel system is under the management of the board of directors of the Canadian National Railways and it has been a long established policy of the government not to interfere with the management function of the Canadian National Railways. I say here and now that the government has not interfered through its minister, or certainly through any other means that I am aware of. The employee in question is an employee of the Canadian National Railways and he is responsible to the management, and to the management alone. He is not a government employee and he is not in any way subject to public interference or control. The policy of the management of the Canadian National

Railways is to operate this transportation system, including these hotels, efficiently and in the best interests of the country, and to do this the management of the railway, to do it effectively, must have a free hand with its employees. Now, that is the statement which Mr. Gordon attempted to give, and did in fact give yesterday. On the other hand, my hon. friend, notwithstanding that, insists that there has been political interference. I deny that there is.

Mr. MACDONNELL: May I have a word, Mr. Chairman? May I at least read what I said—

The CHAIRMAN: On a question of privilege, yes, but I think we have gone too far afield on the question of privilege.

Mr. McCULLOCH: Cut it out.

The CHAIRMAN: I want to be fair to the committee and I want to be fair to Mr. Macdonnell.

Mr. MACDONNELL: I just want to read one sentence to support what I said in my original speech in this matter. I referred to the Prime Minister in the same way I did last night. I am reading from page 578 of *Hansard*:

And finally, I put it up to the Prime Minister who was there. He, I believe, would have no patience with this kind of thing.

Now, Mr. Chairman, may I have a moment more to reply to the minister. I just want to say two things. I am not going to argue about your judgment. You have given that. It has already been pointed out, and I think the minister agrees that there is no question here of giving information that could be valuable to competitors, and to remind you that it was not only suggested, but I was challenged by Mr. Howe that I should come here, and what he said was:

He could demand the files, he could demand operating results, he could go to the bottom of this matter, and it certainly is his duty to parliament to do so.

Hon. Mr. CHEVRIER: May I interrupt you there? You were challenged to come here and ask questions, but you came here and made a 30-minute statement contrary to the practice of this committee.

Mr. MACDONNELL: I realize that a statement by Mr. Howe does not necessarily affect the practice of this committee. I am only saying that a responsible minister, when this was up in the House, said to me that that was the wrong place and "you should go to the committee".

Hon. Mr. CHEVRIER: He was quite right in saying that, because this is the place to deal with it.

Mr. MACDONNELL: Well, I am dealing with it.

Hon. Mr. CHEVRIER: Well, why not ask questions of the witnesses?

Mr. GORDON: Give me a chance to answer.

Mr. MACDONNELL: I do wish to say that I think the minister, instead of trying to prevent this thing from being gone into, with the documents produced, should have supported me. Obviously I am not going to spend a lot of time on that, because he did not support me, but I am saying that while I am on record—Mr. Pouliot read what I said, and I think I know something of the proprieties of managing a corporation, but I say there is a whole world of difference in this. This has arisen because of the action of fellow employees and it became a matter of public knowledge. I still maintain if this is hushed up it will be a bad thing, and I feel it should be gone into, and I feel if we are prevented here from going into it—

Hon. Mr. CHEVRIER: Go into it, then.

Mr. MACDONNELL: We are asking for the documents to be brought here so that we can go into it.

The CHAIRMAN: Gentlemen, we had a motion before us for the production of papers, and after an extended discussion—and I believe I showed great leniency in the discussion—

Mr. FULTON: You read a prepared statement.

The CHAIRMAN: I ruled. Do you object to a person studying a serious problem before expressing an opinion on it?

Mr. FULTON: I said that you read a prepared statement.

The CHAIRMAN: And so I did.

Hon. Mr. CHEVRIER: And so did Mr. Macdonnell. He read a prepared statement too.

The CHAIRMAN: Order, gentlemen. I ruled that the motion for the production of papers in this connection was out of order. Mr. Macdonnell has appealed from the ruling of the chair. I think I should explain to the committee why I consider that in fairness the rules of order should be bent a little. Mr. Macdonnell did make a statement in the heat of the discussion last night which was not factually correct. Therefore I think he should have an opportunity to retract that statement.

Mr. MACDONNELL: What I said, Mr. Chairman, was correct. I had a message from him.

The CHAIRMAN: I shall read from the record just what you said, Mr. Macdonnell. This is what was said:

“Mr. Gordon: To whom did Mr. Pitt make this request?”

That was a request to come and give evidence. And you said: “To me.” That is not factual.

Mr. MACDONNELL: It is true that I have been at pains to explain, but at the time the atmosphere was not good for explanations. But I repeat that the statement was correct. He did make a request to me and it came through a mutual friend in Winnipeg. That was his request.

Hon. Mr. CHEVRIER: I would like to hear from Mr. Gordon.

The CHAIRMAN: We shall come to that. Gentlemen, I think I have allowed perhaps more laxity than I should have in regard to this question of privilege. But I have done it. The appeal is from the ruling of the chair and the question is not debatable. All those in favour of sustaining the ruling of the chair will please signify.

Mr. FULTON: Mr. Chairman, may we have a recorded vote? Somebody says “too late” but I submit it is not too late.

The CHAIRMAN: All those opposed to the ruling of the chair? Mr. Fulton has asked that we have a recorded vote. He is late in asking for it but I instruct that the vote be recorded.

Mr. FULTON: Under the rules, Mr. Chairman, I submit that we can ask for a recorded vote. I think you will find under the rules that I was in time.

Mr. JAMES: Let us record it. What is the difference?

The CHAIRMAN: Let us take a recorded vote. The request is in.

(At this point a recorded vote was taken.)

The CHAIRMAN: I declare the appeal from the ruling of the chair to be lost. Now, we have a motion of Mr. Macdonnell's before the chair that Mr. Pitt be called before this committee as a witness.

Mr. FULTON: And Mr. Sommerville.

The CHAIRMAN: And Mr. Sommerville. As these men are employees of the Canadian National, I would like to have a statement from Mr. Gordon in this regard.

Mr. GORDON: Mr. Chairman, there are so many sections of this particular question now which have accumulated that I must ask for your indulgence if I try to cover the ground in respect of principle particularly.

I think I should first of all comment on Mr. Macdonnell's assertion this morning with respect of Mr. Pitt. I feel it my duty to defend Mr. Pitt.

When I left this parliamentary committee last evening I was not in a very good frame of mind. So I called my secretary and I dictated a statement of which I will now give you the essence.

Just at the close of the parliamentary committee proceedings this evening, Mr. J. M. Macdonnell made a statement. He said something as follows: "The shoe here is on the other foot. Mr. Pitt is asking that he be heard by this committee."

I thereupon directed a question to Mr. Macdonnell and I asked him to whom had Mr. Pitt made such a request. And Mr. Macdonnell's reply was that Mr. Pitt had asked him, (Mr. Macdonnell), to make such representation.

Mr. MACDONNELL: I said that it came to me.

Mr. GORDON: The words as I recall them, were "to me".

Mr. MACDONNELL: That is right.

Mr. GORDON: I then stated to Mr. Macdonnell that Mr. Pitt in my opinion had no right to make such a request through Mr. Macdonnell when he, Mr. Pitt, should have submitted it to me.

There was a great deal of further conversation, most of which I presume is recorded in *Hansard*. I do not recall too clearly much of that conversation, because quite frankly, I admit that I lost my temper.

However, upon returning to my hotel I telephoned to Mr. Pitt and I asked him if he would reply to a simple question and tell me if he, Mr. Pitt, had asked Mr. Macdonnell that he be called before the committee as a witness.

Mr. Pitt immediately denied that he had made such a request. He said that some friends of Mr. Macdonnell's had approached him and asked him if he was willing to appear if called as a witness. Mr. Pitt said that if he were called by the committee he could not do anything else but appear.

Mr. Pitt repeated emphatically that he did not make a request of Mr. Macdonnell to be brought before the committee. That is all the conversation I had.

At this point I wish to direct my further remarks solely to the question of principle here involved and the effect on management as I see it. It seems to me that the only question properly at issue is the allegation contained in a news report published by a Winnipeg newspaper charging that Mr. Pitt's transfer from the Fort Garry hotel in Winnipeg to the Prince Edward hotel at Brandon was brought about as a result of political interference arising out of the visit to Winnipeg by the Prime Minister.

That news report was not referred to the management of the Canadian National hotels before publication either for verification or for comment. Moreover, no charge such as contained in a newspaper report has ever been lodged with the management of the Canadian National hotels or myself.

As soon as the news report was brought to my attention I promptly denied its allegations and I authorized a statement in quotations to that effect. Nevertheless, on the basis of this wholly unconfirmed news item, and despite prompt denials of its accuracy by those concerned, there have appeared in the newspaper editorial comments, and in statements in the House of Commons, as well as in some correspondence, claims and allegations about political interference in the Canadian National hotel management.

To each and every one of these I repeat my categorical statement that no complaint has been registered either by the Prime Minister or on behalf of him in respect to the visit in question to the Fort Garry hotel.

Further, I now state equally categorically that no attempt of any kind has been made to influence the management of the Canadian National hotels in regard to the placement of any member of its staff, and that any decisions of this kind have been solely those of the management. I should also point out that Mr. Pitt was given the opportunity to discuss with me the reasons for his transfer following which I confirmed to Mr. Pitt orally the decision of the general manager of hotels. Mr. Pitt accepted that decision and so far as I have knowledge, Mr. Pitt has authorized no one to make further representations on his behalf.

For the reasons which I stated yesterday I regard it as most improper and highly unfair to any employee that his service record should be made a matter of public disclosure. Accordingly, the reasons leading up to our decision to transfer Mr. Pitt are purely matters for the internal management of the company, and I am strongly of the opinion that management's authority over the transfer, promotion and discipline of every employee must be placed beyond the possibility of doubt.

In parenthesis I may also say that I am delighted to realize that public opinion is so sensitive about any possibility of political interference with the management of the Canadian National, and I assure the committee, and through it every employee in the Canadian National organization, that if there were the slightest substance to these fears, I would be the first to complain.

Mr. Chairman, perhaps I may now deal with the question of principles as I see them and I wish to make a special statement in that connection. In the course of my duties I travel a good deal and I meet a great many people. In meeting a great many citizens in the course of my travels, I make it a practice to inquire about their experience with Canadian National service in its various forms. Moreover, I receive a heavy mail flow from people who write me about their experiences with our facilities,—some in commendation, some in criticism.

Still further, our public relations officers across the country keep in touch with expressions of opinion. In this way, I, as well as other senior officials of the railway, keep informed about how our patrons regard us and by acting promptly to correct evidences of indifference we often pacify customers with grievances or, alternatively, we build up staff morale by giving a pat on the back to an employee who has attracted commendatory comments by living up to our motto of "courtesy and service".

This is an important point of principle which I would ask the committee to consider very seriously. If the management of the Canadian National system were to be required to divulge the names of customers or others who have made comments about our services or be obliged to reveal what has been said in private conversation or correspondence then it would, in my judgment, become impossible to obtain this frank or constructive comment which is helpful to management.

Naturally we do not accept at face value all that we hear but it is of interest for us to know what people think of us and to have opportunities to investigate specific situations as we do. Still further, if individuals who have conversations with Canadian National management are to be subjected to call before parliamentary committees, it would rapidly become impossible for us to do business.

I conclude by affirming on my personal word of honour that there has not been the slightest interference, nor the slightest pressure upon me, or to my knowledge, upon any official of the Canadian National Railways, having regard to the transfer of Mr. R. S. Pitt.

Mr. MACDONNELL: Apparently there is one place in which there is agreement and that is that Mr. Pitt is ready to come if requested. That was what I said in my statement this morning and you can see that my statement was perfectly correct.

The CHAIRMAN: Are you ready for the question?

Mr. FULTON: Mr. Chairman, there are certain things which I think should be said before the question is decided. Mr. Macdonnell has made it clear that in anticipation of the challenge of his statement he felt it necessary to ascertain whether or not Mr. Pitt would be willing to come before the committee. He so ascertained and Mr. Pitt has indicated that he would be willing to come if called. That is the first thing. Now, certain of the statements made by Mr. Macdonnell have been called in question, and the whole situation has been called in question by the statement which has been made by Mr. Gordon and which I feel he was bound to make. I think that under those circumstances that is the only way we are going to get at the truth. I am not criticizing them for it, but it is obvious from the attitude of some members of the committee that they are disposed to question the accuracy of Mr. Macdonnell's statement.

This whole situation arises out of a very serious suggestion that has been made namely, that there has been an attempt to bring political pressure on the management of the railway. I should say to you, Mr. Chairman, and the committee that matters have now gone beyond the point where any ordinary principles might govern, such as those referred to by the minister. We can only settle this question if we call Mr. Pitt and Mr. Sommerville as witnesses before the committee.

I suggest that the statement made by Mr. Gordon is the strongest possible argument that this committee must call Mr. Pitt to get at the facts. Otherwise it will be left in the realm of uncertainty. And I submit that otherwise the suggestion which has been made that there has been political pressure brought to bear will not be disposed of.

Mr. BENDICKSON: In other words, you do not believe Mr. Gordon.

Mr. FULTON: I submit that this issue will not be disposed of or the facts known until the witnesses, Mr. Pitt particularly, and Mr. Sommerville are called before the committee.

Mr. GORDON: What witness can give better evidence than mine in regard to that point?

Mr. FULTON: I suggest to you that Mr. Pitt can give evidence as to the circumstances surrounding his transfer.

Mr. GORDON: The transfer of Mr. Pitt was a decision taken by the management. I discussed the reasons with Mr. Pitt. He knows them. The decision that was made by the general manager of hotels was investigated by myself and I confirmed it. I have stated to you the only way in which there could be the slightest suggestion of political interference, in my judgment, would be that if there had been any impact on my mind by anybody to make that decision, but no witness in the world that you could call can state what motivated my decision on this matter. And I submit to you that I am the only person in the world who can reply to the question as to whether or not there was political interference because I was the man who made the final decision.

Mr. FULTON: May I ask you this question, Mr. Gordon: You would naturally receive a recommendation from your general manager of hotels.

Mr. GORDON: That is right.

Mr. FULTON: Would you care to admit that it is relevant to this discussion to find out the whole circumstances under which the general manager of hotels arrived at his decision which caused him to make a recommendation to you?

Mr. GORDON: The point is that the general manager of hotels arrived at his decision for a series of reasons which I say, as management, should not be a matter for public discussion. And I simply touched on the point of principle as to the political interference. The charge here, after all, is not

whether I made a bad decision, or even that. It is not whether I made an unfair decision, or even that. The charge here is only that there has been political interference.

Even if I had made a bad decision, it is still not the business of this committee to investigate it. You have a right to have an opinion about me as President of the Canadian National Railways. But as President of the Canadian National Railways I must take the responsibility for management, and I must have supreme authority and control over the staff and employees of the Canadian National Railway Company.

Let me ask you this one question, Mr. Fulton. A man in your constituency, let us say, working for the railway, is dismissed from the service. He does not like it. No man likes to be dismissed. He appeals to his superior officer, and in due course the appeal comes to Mr. Dingle, the Vice-President of Operations; and in due course the appeal will reach me. It is my duty to examine his appeal and give him a fair trial. Now, of necessity, if management is to have any authority over staff, that must be the end of the matter.

If an employee is to be given the right to appear before this committee and argue his case, then the authority of management disappears. There is no business in this country that can operate that way.

Mr. FULTON: But the situation here, I suggest to you, is very very different. We are not asking Mr. Pitt to appear. The suggestion is not that the committee ask Mr. Pitt to appear before it to argue his case. The suggestion is that Mr. Pitt be called before the committee in order to answer questions which members of the committee may put to him.

And I say to you in answer to the proposition which you have just made, that if I had any reason—you have stated it as just a general proposition and you will permit me to do the same, and you will leave personalities out of it—that if I had any reason after such an investigation as I have been able to make of the case to conclude that this hypothetical man in my constituency had been unfairly treated, then I would most certainly be prepared to bring it before this committee and demand that the employee be called before the committee to answer questions which I would ask that employee.

Let me conclude here, Mr. Gordon.

The CHAIRMAN: In order that there will be no question as to who has the floor, will the members please stand when they are addressing the chair.

Mr. FULTON: Mr. Gordon.

Mr. POULIOT: Mr. Chairman, the question I will ask you to discuss with Mr. Macdonnell and Mr. Fulton is this. I have no power of attorney, but I shall ask a question, if you will permit me.

The CHAIRMAN: If Mr. Fulton is willing to have a question asked, then all right.

Mr. FULTON: May I suggest that after I am finished, and if I have not asked all the questions that I should, that I will be prepared to allow Mr. Pouliot to ask any that I left out. Mr. Gordon has himself stated as to the reasons for his decision in this or any other case, that he is the only man who would know what is in his mind when he makes that decision. That, of course, is obvious, but I submit that it is a principle, and I ask Mr. Gordon if this is not correct; is it a principle of management that management receives recommendations, that is, the top men receive recommendations from those whom they have placed in positions of responsibility to carry out the diverse functions of the railway?

Mr. GORDON: Yes.

Mr. FULTON: And when these subordinates arrive at their decision to recommend a certain course of action, the motives and reasons in the minds of those subordinates would be known only to them. So it seems to me that

it is very simple. There have been statements and there has been, I suggest, a good deal of evidence to support the claim that there is evidence of an attempt to bring political pressure to bear, but the first place where that would be brought to bear is, as I suggest in the case of a complaint or an incident involving the manager of a hotel, is at the level of the general manager of hotels. The only person who can answer questions as to the circumstances under which those complaints involve the manager of one of those hotels would be the general manager himself, and Mr. Gordon would not necessarily, I submit to you in all seriousness, know all the surrounding circumstances, particularly those which do not appear in the record.

Mr. BENIDICKSON: He says he does know in this case, though.

Mr. FULTON: Mr. Gordon has said that nobody but himself knows what is in his own mind when he arrives at a decision, but the general manager of hotels would know all of the circumstances when he came to a certain decision. All we are asking is that that gentleman, who is not a junior official but is a pretty senior official of the Canadian National Railways, be called before this committee so that he can be questioned to explain the circumstances under which he made the decision he did.

The CHAIRMAN: Do I understand this, that having called this witness, who is junior to the president, and after hearing his evidence, is it your contention then that if his evidence is so and so, that this committee should overrule the decision of the president of the company in a matter regarding staff?

Mr. FULTON: I am not suggesting what action this committee might take after hearing the evidence.

The CHAIRMAN: What other action would you take? Are you not driven to that? I would suggest you read from Arthur Meighen, Sir George Foster, Sir Thomas White.

Mr. FULTON: One thing that still might be open to this committee to do after hearing the evidence would be to pass a motion of censure on the government in the matter—

Mr. BENIDICKSON: Over the word of honour of the president?

Mr. FULTON: —for having brought political pressure to bear on any official of the Canadian National Railways.

Mr. GORDON: That is not true.

Mr. FULTON: You are now saying, Mr. Gordon, you know what was in the mind of Mr. Sommerville.

Mr. GORDON: I do know, because it was my duty to inquire of Mr. Sommerville and ask him to explain the decision to me. We are talking here about a principle of management which is fundamental, and that is the authority of management over its staff. Now, it has been clearly stated here that the management of the Canadian National Railways has to be an independent management free from political interference and that the business should be run as any other business. If this principle is established that you have the right to call the general manager of hotels of the Canadian National Railways, then I would ask you why you should not call the general manager of Canadian Pacific Railway hotels and ask him why he made a transfer of, let us say, the manager of the Royal York Hotel.

Mr. FULTON: I answer Mr. Gordon by saying if I were a shareholder of the Canadian Pacific Railway and I thought that an employee of the company had been demoted or transferred for reasons which were unjust and which should not prevail in the management of that concern, I should most certainly take the opportunity of attending at the annual meeting and bringing the question up.

Mr. BENEDICKSON: And you would talk only to the president of that company.

The CHAIRMAN: And how far would you get?

Mr. FULTON: I know that I would not find any more loaded committee against me than I find here in the case of Mr. Pitt. Now, Mr. Gordon has made certain statements here and I would like to ask him some questions arising out of what he just said. I want to know whether a message was sent on or about the 22nd September to the Fort Garry Hotel, which is about ten days after the visit of the Prime Minister's party, demanding the submission of the file in connection with the matter of the Prime Minister's reservation.

Mr. GORDON: That is quite true.

Mr. FULTON: And on September 23, was there a further wire sent saying that the file had not yet been received?

Mr. GORDON: I cannot confirm the date, but the files of that visit were requested by the general manager at my suggestion. It was several days before the manager replied to that request.

Mr. FULTON: And that initial request was made by you ten days after the visit of the Prime Minister to Winnipeg?

Mr. GORDON: I won't dispute your date, but that would be approximately correct.

Mr. FULTON: Now, did Mr. Sommerville—

Mr. GORDON: And, incidentally, that is not all that was asked for.

An Hon. MEMBER: Would you like to hear it?

Mr. FULTON: If Mr. Gordon wants to say what else was asked for, he can do so.

Mr. GORDON: I asked for sufficient information to review the case and the decision which the general manager of hotels had made. I asked him to place before me the record on which he based his recommendation in order that I would make a suitable inquiry into it.

Mr. FULTON: When was that recommendation of the general manager of hotels received by you?

Mr. GORDON: I could find that date.

Mr. POULIOT: Owing to the Connelly precedent, I would suggest to Mr. Fulton to be very careful.

Mr. GORDON: It is too late, Mr. Pouliot. The recommendation made to me by Mr. Sommerville—at least, the recommendation that came in the first instance through my executive assistant for the changes in the hotel organization that included the transfer of Mr. Pitt, was made under date of October 14.

Mr. FULTON: Well, Mr. Gordon, I think you told me that you had caused the instructions to be given which resulted in the request for the file in connection with the Prime Minister's reservations, which was made on September 22. You told me you made that request on a recommendation from Mr. Sommerville?

Mr. GORDON: Well, then, I must have misunderstood the meaning of your questions. I instructed Mr. Metcalf, who is my executive assistant and in the first instance the supervisor of hotel operations for me, to instruct Mr. Sommerville to make a review of our hotel operations with particular reference to the Fort Garry Hotel, because information that I had received from a number of places had indicated that the service at the Fort Garry was not satisfactory and not up to standard, and as a result of my general request that there should be a review of our hotel operations. With that in mind Mr. Sommerville,

after investigation, in a report to Mr. Metcalf dated October 14 made his recommendation that there should be certain transfers made in our hotel organization, which included the transfer of Mr. Pitt.

Mr. FULTON: Then I shall have to go back to my initial question as to the dispatch of the message on September 22 calling for the file in connection with the reservation of rooms for the Prime Minister and his party.

Mr. GORDON: The origin of that is a letter from Mr. Metcalf to Mr. Sommerville carrying out my instructions.

Mr. FULTON: When were your instructions given?

Mr. GORDON: My instructions were given under date of September 19, and following my instructions, which were directed to Mr. Metcalf, Mr. Metcalf wrote to Mr. Sommerville a letter in which he called for that review. Mr. Sommerville made his review and in due course, as I have said, made his recommendations that he felt a shake-up in the organization was called for.

Mr. FULTON: On September 22, Mr. Sommerville sent a message requiring a file at the Fort Garry Hotel about the Prime Minister's hotel reservations.

Mr. GORDON: It was following my letter. If we must be precise in dates, I suppose I can trace it. Mr. Sommerville wired to Mr. Pitt on September 22, asking for the file. The only message that he sent him without any comment at all—I think I might as well read this message:

Send first airmail your file on reservations for the Prime Minister and also state what accommodation he and his party occupied.

That was dated September 22nd.

Mr. FULTON: Is there a further telegram on September 23?

Mr. GORDON: He wired him again, asking why it had not been sent.

Mr. FULTON: That was one day later, asking him why it had not been sent?

Mr. GORDON: That is right.

Mr. FULTON: Do you not think that indicates some rush or desire to receive this file?

Mr. GORDON: It indicates simply that Mr. Sommerville had had experience before with delays in the Fort Garry Hotel.

Mr. FULTON: I suggest that when your wire of September 22, asking for a file from Winnipeg, was received, that there was hardly time to comply when the second wire of September 23 was sent, and in this I suggest that some indication of urgency is apparent about receiving it.

Mr. GORDON: I have no doubt Mr. Sommerville wanted to complete his review as rapidly as possible. Mr. Sommerville was due to leave on a trip having to do with affairs at Jasper—no, it was later than that, he was due to leave on a trip and was anxious to get this matter cleared up.

Mr. FULTON: Would you expect to receive a file in one day from a place as far away as Winnipeg?

Mr. GORDON: Certainly.

Mr. FULTON: How?

Mr. GORDON: What have we got air mail for?

Mr. FULTON: Would you read the first wire again, the September 22nd wire?

Mr. GORDON: "Send first airmail your file on reservations for the Prime Minister and also state what accommodation he and his party occupied."

At that point Mr. Sommerville knew nothing about the matter except what I had told him, to make an investigation.

Mr. FULTON: Yet he asked specifically for the file on the reservations of the Prime Minister's party?

Mr. GORDON: That is right.

Mr. FULTON: Mr. Sommerville went out to Winnipeg, did he not, in October?

Mr. GORDON: I believe so, yes.

Mr. FULTON: Do you know what information he gave to Mr. Pitt at that time?

Mr. GORDON: Yes, I do. I have the report of it.

Mr. FULTON: What does it say?

Mr. GORDON: I am not going to discuss what Mr. Sommerville talks to Mr. Pitt about, nor am I going to give the reasons, as I said before, which will have any reflection on Mr. Pitt. Mr. Pitt is entitled to be defended in that respect and I propose to do so as far as I can.

Mr. FULTON: Mr. Pitt has already indicated his willingness to come here.

Mr. GORDON: Mr. Pitt has simply answered a question. Someone went to him and said: "Mr. Pitt, will you appear before the committee if you are called?" and Mr. Pitt said, "what else can I do?" He did not ask to come.

Mr. FULTON: I am not pressing that point.

Mr. GORDON: I am pressing it because that is the statement that was made.

Mr. FULTON: The statement I am making—

Mr. MACDONNELL: My statement, I believe, was that he was ready and was willing to come.

Hon. Mr. CHEVRIER: You said he told you that he was coming.

Mr. GORDON: You said the reply was "to me".

Mr. FULTON: I think we can dispose of this—

Mr. MACDONNELL: I was at pains to explain this morning that it was relayed through a responsible person, and I explained that so that there would be no misunderstanding.

Mr. FULTON: We can dispose of this by saying that, whether or not Mr. Pitt is willing to come, it is obvious that this committee is not willing to hear him, for obvious reasons.

Hon. Mr. CHEVRIER: You are trying to make a political issue in this committee.

Mr. FULTON: I take it, Mr. Gordon, you refuse to give us any information with regard to this conversation?

Mr. GORDON: I will not disclose the file of Mr. Pitt's service record with the hotels for reasons which I have already given. That is not fair to Mr. Pitt. There is no reason why Mr. Pitt should have his file revealed to this committee, and the same applies to 120,000 other employees.

Mr. FULTON: There is a letter dated October 27, apparently confirming that Mr. Pitt would be transferred and stating what his salary would be.

Mr. GORDON: I think, Mr. Chairman, I had better claim privilege that I am not going to be talked into revealing individual letters. I have already gone too far on that. It is perfectly true I had the recommendation of the general manager to transfer Mr. Pitt to Brandon, and that is what took place.

The CHAIRMAN: The chair has already ruled as to your position and the committee has supported the ruling of the chair. You should not in the committee make any disclosure of contents of documents or anything regarding internal management of the Canadian National Railways.

Mr. FULTON: Was Mr. Pitt informed on November 27 that he would be transferred to Brandon at a salary of \$440 per month?

Mr. GORDON: That question has been answered in the House, so I see no objection, Mr. Chairman, to repeating that Mr. Pitt was so advised and he was told what his salary would be. It has also been answered in the House that a decision was later made that his salary would not be changed. If you will ask me why, I will be glad to tell you.

Mr. FULTON: I want the full information.

Mr. GORDON: The decision for the transfer would carry with it the normal salary and the position at the Brandon Hotel carried with it that salary. That is the salary that would be payable to Mr. Pitt after that decision has been made. Mr. Pitt made representations to Mr. Sommerville and Mr. Sommerville came to me and recommended that in view of personal reasons which Pitt had disclosed to him, which would indicate that because of his personal situation, his money position being what it was, that a reduction in salary would work a very severe hardship. Mr. Sommerville and I discussed that point and we decided that, all things considered, it was unnecessary to impose that further hardship on him, but purely because Mr. Pitt appealed to us on personal grounds which I am not prepared to disclose, and I call to your attention if I produce that file that among other things that will be disclosed, and that is not fair to Mr. Pitt.

Mr. FULTON: Then let Mr. Pitt come before this committee. He is willing to come before the committee.

The CHAIRMAN: That is not true. I am taking the word of the president against the hearsay statement of Mr. Macdonnell.

Mr. GORDON: In all fairness to Mr. Macdonnell, he has amended his statement. He no longer says he was requested by Mr. Pitt to arrange for him to come before the committee.

The CHAIRMAN: Have matters got to the point, Mr. Fulton, in this committee, where a member of the committee will say he won't take the word of the president of the Canadian National Railways against hearsay evidence?

Mr. FULTON: You are very skilful, Mr. Chairman, in trying to place a member in a position—

An hon. MEMBER: You are not out in Kamloops, now.

Hon. MEMBERS: Order, order.

Mr. FULTON: I will leave that particular matter to be dealt with by Mr. Macdonnell, who will leave no doubt about it, but we have it established now from Mr. Gordon's answer that Mr. Pitt was first informed he would be transferred to Brandon at \$440 per month, and afterwards he was informed that his salary at Brandon would be the same as his salary in Winnipeg.

Mr. GORDON: For reasons which I gave him. I want again, in fairness to Mr. Pitt, to make this statement, that I informed Mr. Pitt that he had every opportunity to progress in the service of the hotel system, and I do suggest here that all this sort of thing that has gone on has been most prejudicial to the personal position of Mr. Pitt, and I imagine that when he says his prayers he also says, "Oh, Lord, deliver me from my friends!"

Mr. FULTON: You are, of course, suggesting in that statement that this matter has been embarked upon lightly, and without considering the position of Mr. Pitt. I am in a position to inform you that this matter has not been embarked upon in that manner at all, and it was for these reasons that the precaution was taken of ascertaining from Mr. Pitt whether he would have any objection to this course being pursued, and if he had any objection to our asking for full disclosure of the facts, and Mr. Pitt's answer to Mr. Macdonnell was that he would have no objection.

The CHAIRMAN: Did he say that to Mr. Macdonnell direct?

Mr. MACDONNELL: I told you how it came about and I assume full responsibility for it.

Mr. FULTON: I suggest to you if Mr. Macdonnell had got in touch with Mr. Pitt direct, you would be the first to say that that was a very improper action. Gentlemen in this country are entitled to place reliance on the words of other gentlemen, and that is what Mr. Macdonnell is doing.

Hon. Mr. CHEVRIER: May I ask you a question?

Mr. FULTON: Not just now.

Hon. Mr. CHEVRIER: I would like to ask you a question.

Mr. FULTON: Wait till I have finished.

Hon. Mr. CHEVRIER: Then you deny me the privilege?

Mr. FULTON: You can ask me your question later, but I wish to complete this portion because the suggestion is continually being made that Mr. Macdonnell is denying the accuracy of what Mr. Gordon has said. Mr. Macdonnell has said, and I know he will repeat it, that he took the precaution of ascertaining Mr. Pitt's reaction through an intermediary.

Hon. Mr. CHEVRIER: Who is the intermediary? Tell us who it is. If you do not, I will put it on the record.

Mr. FULTON: All that Mr. Macdonnell has said is that he has ascertained from Mr. Pitt whether he would have any objection to this matter being taken up in the committee and pressed to its utmost conclusion, and if he had any objection or reservation with respect to the disclosure of the fullest information, and the answer which Mr. Macdonnell received, through the intermediary, was that there would be no such objection, and there is nothing there inconsistent with what Mr. Gordon has said.

Mr. GORDON: Mr. Pitt has made no representations for further investigation.

Mr. FULTON: Mr. Macdonnell did not say that Mr. Pitt made representations.

Mr. GORDON: Who is Mr. Pitt working for?

Mr. FULTON: I repeat, the fact has been established that the approach was made to Mr. Pitt and that the answer was received, an answer upon which reliance was placed, that he would have no objection to having this matter pressed in the committee. I will leave that there.

Hon. Mr. CHEVRIER: May I ask my question now? Who is the intermediary that operated between Mr. Macdonnell and Mr. Pitt?

Mr. POULIOT: Tim Buck!

Mr. FULTON: You will have to ask that question to Mr. Macdonnell if you wish, and the answer—I am not sure you are entitled to an answer.

Hon. Mr. CHEVRIER: Then I ask Mr. Macdonnell.

Mr. FULTON: Will you wait? I have just a few more questions to ask. Mr. Gordon, you have heard the facts that have been placed on the record by Mr. Macdonnell last night as to the circumstances of the Prime Minister's visit and the visit of Mr. Pickersgill. With regard to the items, do you accept that statement as correct or have you any alterations to make?

Mr. GORDON: I am not going to start a trial as to somebody's assertions as to what happened. I merely say this, that following Mr. Sommerville's inquiry as to the handling of a party, whether it was the Prime Minister's party or any other, at my request he inquired into the handling of a party, and on the basis of his examination he came to the conclusion and reported to me that he was dissatisfied with the handling of that party. He also reported to me that he was dissatisfied with a great number of other matters.

Mr. FULTON: And you have no alterations or corrections you wish to make as to the assertions of fact?

Mr. GORDON: Now, wait a minute. You are putting words in my mouth.

Mr. FULTON: I asked you this. I said, do you wish to make any alterations or corrections as to the assertions of fact which Mr. Macdonnell placed on the record last night regarding the circumstances of the visit of the Prime Minister's party?

Mr. GORDON: Assertions of fact by whom?

Mr. FULTON: Mr. Macdonnell.

Mr. GORDON: Wait a minute. I reply to that very simply, that I heard no assertions of fact.

Mr. FULTON: You reveal then a hardness of hearing which is not characteristic of you. Mr. Macdonnell has made assertions of fact. They are on the record. I ask you if you wish to avail yourself of any opportunity of altering or disagreeing in any respect with the assertions that have been made, and I may point out to you that up to the present you have indicated to me that you do not wish to make any corrections of these assertions.

Mr. GORDON: I have done no such thing, Mr. Fulton, with all respect. I have said I have not heard Mr. Macdonnell make any assertions of fact of which he has knowledge. He has placed on the record that some mysterious person has given him some information. He has also said that somebody wrote him a letter on behalf of Mr. Pitt.

Hon. MEMBERS: Order, order.

Mr. FULTON: Mr. Gordon, I point out you are not answering my question. My question relates to the circumstances of the visit of the Prime Minister and his party and Mr. Pickersgill, on which Mr. Macdonnell did not rely on letters, as you yourself know. There have been statements appearing in the newspapers and coming to the attention of the public as to the circumstances of the visit. There is additional information which may be in my possession or in Mr. Macdonnell's possession, but I point out to you that Mr. Macdonnell made assertions of fact—

Mr. GORDON: Of which he has no knowledge.

Mr. FULTON: —with respect to the circumstances of that visit, and they are on the record.

The CHAIRMAN: I would ask, Mr. Fulton, that you would state your—

Some hon. MEMBERS: Order, order. Sit down.

Mr. FULTON: Mr. Chairman, I yield.

The CHAIRMAN: I would ask, Mr. Fulton, that you would state your question and then that you would permit Mr. Gordon to answer without intermingling arguments as he answers.

Mr. POULIOT: And do not speak when he answers.

Mr. FULTON: I will be glad to state my question, but I would ask that you require the witness to answer the question and not to make arguments when he is answering, and not to make statements that have no reference to the question.

The CHAIRMAN: Let us get on!

Mr. FULTON: My question, Mr. Gordon, is in reference to a statement of fact.

Mr. JAMES: Of fact?

Mr. FULTON: Which Mr. Macdonnell placed on the record with reference to the circumstances surrounding the visit of the Prime Minister and his party to the Fort Garry. Do you disagree with that statement or do you want to vary the facts of it?

Mr. GORDON: I have heard no statement of facts by Mr. Macdonnell.

Mr. MOTT: That is five times, Mr. Chairman. He has said it five times.

Mr. JAMES: Let us hear from a new one.

Mr. KNIGHT: It is a disadvantage in a committee of this kind, I have discovered, to have a soft voice. I did try to say something yesterday afternoon but with very little success. Mr. Macdonnell was allowed to make a long statement. I have no quarrel with that, but I think we should be allowed to say a word or two, because after all there are more sections than one in this particular committee.

I made a statement or a speech here — which is perhaps a different thing than in the House of Commons — and I want to say a word or two in relation to this matter now and get it over with. I want to state my position which is somewhat different from that of my hon. friend.

As I said yesterday, I was bringing no charge. I am not interested in the political implications of this thing, or in whether or not there was governmental interference with the management of the hotels. I am purely and simply interested in it as a member of parliament who has received letters. I have the letters here which could be filed. Of course, it is not necessary. But they are letters from various people. I have letters from doctors and from lawyers, and I have letters from employees of the Canadian National system and of the hotels. They have asked me to raise the matter, and it was with that intention and with that purpose only that I raised the matter in the House of Commons.

I say that the charges have not been all one-sided. And as I indicated yesterday, I would quarrel with the Minister of Transport in that connection. The Minister of Transport said that these gentlemen — and since I was in the opposition I thought perhaps he included myself — that this decision taken on Mr. Pitt, or whoever it was, was not a decision of the government, but actually a decision of the Canadian National and its management. I want to assert most vehemently that my sole purpose in raising the question in the House of Commons was to fulfil what I considered to be my obligation to my constituents who are interested in this particular thing. I say that the people in Saskatoon are greatly interested in this particular thing. I have an editorial from the *Star-Phoenix* which, at several places mentions dissatisfaction. As a matter of fact in the second line of the editorial it says:

... the dissatisfaction of thousands of his constituents of all parties when he asked for more information on the summary demotion of Mr. Bob Pitt from the Fort Garry hotel in Winnipeg . . .

And in regard to this particular matter. Moreover, further down it talks about this thing as being an outcry. And I would point out to all of you that this man, Mr. Pitt, is a man I do not know. I never met him but he was considered to be a very amiable, congenial and efficient person and a good manager so far as the Bessborough hotel was concerned. What his record was before or after I do not know. But I am conscious that was his record during the years he was manager of the hotel in my particular city.

I said that the minister had thrown some charges around, and he also said that we, and I suppose that includes members of the opposition — after all one can see a political element in the thing — he said there were political reasons. But I deny that and I deny it vehemently. And the third thing on which I would find fault with the minister is this:—that Mr. Gordon told us that he was defending Mr. Pitt. I hope he is but his Minister of Transport is not defending Mr. Pitt when he wrote to me in a letter which should become published and which letter says:

Office of the Minister of Transport, Ottawa, Canada,
December 2nd, 1952.

Dear Mr. Knight:

I have for acknowledgement your letter of November 28th, and I note your dissatisfaction at the answer which I gave in the House on the transfer of Mr. Pitt from the management of the Fort Garry hotel to that of the Prince Edward at Brandon.

You will appreciate that the question of changes in personnel in the Canadian National Railways is one of internal management, in which it has always been the policy of this department not to interfere. In this particular case when the question was asked in the House, I inquired, as I always do from the management of the railways and, based on the report which was given me, I replied to the query of the member for Lake Centre.

As it has been the practice in the House since formation of the Canadian National Railways, a committee will review again this year the affairs of that railway. You, as a member, will have the opportunity of seeking a reply to any question which you care to ask from the chairman and president, Mr. Donald Gordon. It may well be that the reasons for the transfer of Mr. Pitt, if made public, would react unfavourably to his cause.

Yours very truly,

(Signed) Lionel Chevrier.

R. R. Knight, Esq., M.P.
House of Commons,
Ottawa.

I suggest that neither the Minister of Transport nor any other man should leave a man's reputation in that regard under a shadow unless he is prepared to have witnesses called to this committee to have the matter thrashed out.

That is the reason I support the resolution which has been moved by my hon. friends to my right.

Mr. MOTT: No, to your left.

Mr. BENEDICKSON: Your rightist friends.

Mr. KNIGHT: I have dealt with the minister's statement and with the assertion that it is an attack on the railway company and with the assertion that there is a political intent which, on my own behalf I can only deny. And I want to say, too, that it raises the very same difficulty which came up this morning. I have to be fair, politically or non-politically so far as I am concerned. And if my hon. friends wish to sneer at that statement, they can apply it to their own case.

Mr. MOTT: We still sneer.

Mr. KNIGHT: Mr. Pitt has not taken any initiative in this question so far as I know. I have letters in my file to prove that Mr. Pitt was approached by a friend who, to my knowledge, did not have any political bias. He was simply a friend in the ordinary sense in which that expression is used. That friend approached Mr. Pitt, I think it is correct to say that Mr. Pitt was perfectly satisfied, or would be perfectly satisfied if an investigation such as Mr. Macdonnell wishes to have made were in fact made.

I have told you that there is in Saskatoon certain public dissatisfaction. I think that is a matter of record. And I would go further. I would say that

there is a feeling among certain railroad people that this thing should be brought into the open, and that if it is not so brought into the open there will be in their minds and in the minds of railroad employees and hotel management across this country some feeling of fear and uncertainty and, perhaps, some loss of morale which may not add to the efficiency of the hotel system.

In conclusion I would like to say that I am speaking not for the sake of a man as manager of a hotel or in a high position. I know that he works for a government corporation and I realize that. But after all, the public in my city, so far as it is concerned, whether rightly or wrongly, think that if there has been an injustice, it must be the duty of a member of this House to bring before this House any such case of injustice, when he is requested so to do. I would be just as interested in a janitor or in a man who wipes the floor. As a matter of fact, I know that man in the hotel very well.

I do know that this manager was a man of the highest principles and I know that he left a most favourable impression upon the citizens of my city when he left.

I would like to speak of one other thing and that is the interest which the legion has shown in this particular matter. I understand that Mr. Pitt was a veteran of the war. I do not want to go into past history, but there are assertions that Mr. Aslin and Mr. Pitt were at the war when the present general manager of hotels superseded Mr. Pitt.

Mr. GORDON: I object. I think that is scandalous.

Mr. KNIGHT: All right, I will leave it out then.

Mr. GORDON: I object that any member of the Canadian National system should have such a smear placed upon his name. I suggest, Mr. Knight, that you are by innuendo trying to reflect on Mr. Aslin or on Mr. Sommerville.

Mr. KNIGHT: No, I am not.

Mr. GORDON: I am going to defend the employees of the Canadian National Railways.

The CHAIRMAN: Mr. Knight, in view of the president's statement, I suggest that you—

Mr. FULTON: I think it is up to Mr. Knight, Mr. Chairman, if he cares to make the statement or not.

Mr. KNIGHT: I am not saying that. I am simply saying that there has been a suggestion made that when Mr. Pitt came back from the war he found that he was not in as good a position for promotion as he had been before he left.

Mr. GORDON: That is not true.

Mr. KNIGHT: Very well, I will not put it in the record.

Now, I have two letters. First of all the secretary of the legion wrote to Mr. Gordon and there is a reply from Mr. Gordon. And in reply we have a second letter from the legion of which, no doubt, Mr. Gordon has a copy. I can identify it by the date. It is December 18.

The CHAIRMAN: What are these letters? Whom are they from?

Mr. KNIGHT: This is a letter sent by the secretary-manager of the legion branch in Saskatoon. It is written to Mr. Donald Gordon in reply to a letter which is dated December 18.

Mr. GORDON: May I suggest that if Mr. Knight is going to read letters from the legion that he read them all.

The CHAIRMAN: I think that is only fair.

Mr. MUTCH: I thought we had settled that.

Mr. GORDON: If it is correct that he should read the letters, I suggest that he read them all.

Mr. KNIGHT: Very well, I will do that. I will read the first letter. It is dated November 25, and it reads as follows:

November 25, 1952.

Mr. Donald Gordon
President
Canadian National Railways
Montreal, P.Q.

Re: Mr. R. S. Pitt.

Dear Sir:—

On behalf of the officers and members of this branch of the Canadian Legion, I am to make the strongest possible representations to you, in view of the newspaper reports and editorials and the knowledge of the facts which we have been able to acquire by investigation, against the demotion of Mr. Pitt, who is a member of our branch of the Legion, in urging that the injustice done him be speedily rectified.

During his tenure here as manager of the Bessborough, we always found him kind, considerate and courteous. The cooperation which he extended us in our arrangements for our Dominion convention in 1948, left nothing to be desired.

He was and is, in our opinion, a valued executive employee of our national railroad system, and is not deserving of the demotion accorded him.

We therefore urge you to reconsider the matter and restore him to the managership of one of the system's hotels having at least an equal standing as the Fort Garry.

Yours faithfully,

H. T. Pizzezy,
Secretary-Manager.

That was the first letter. I do not see the point of my reading it.

The CHAIRMAN: Then there is Mr. Gordon's reply?

Mr. KNIGHT: Yes. And Mr. Gordon replied on December 1, 1952, and it reads as follows:

December 1, 1952.

Dear Mr. Pizzezy:

This will acknowledge your letter of November 25th, making known your views regarding the recent transfer of Mr. R. S. Pitt from Winnipeg to Brandon.

What you have said confirms my information about the work of Mr. Pitt when he was manager of the Bessborough hotel. It was on the basis of this record that he was selected to manage The Fort Garry, where certain services had been deteriorating.

Mr. MUTCH: Hear, hear!

Mr. KNIGHT:

Mr. Pitt remained in The Fort Garry post for more than a year when, further and faster improvement being considered necessary, the general manager of hotels recommended and was authorized to arrange a general shift of managers which involved Mr. Pitt's transfer to Brandon.

At the time, Mr. Pitt had a meeting with me here and he was told of the reasons that prompted the decision of the general manager of hotels. He was also assured that he would be given every opportunity to demonstrate his capacity for advancement in the future.

Yours sincerely,

D. Gordon.

H. T. Pizzey, Esq.,
Secretary-Manager,
The Canadian Legion of the
British Empire Service League,
Saskatoon Branch No. 63,
Saskatoon, Sask.

Mr. KNIGHT: To that letter Mr. Pizzey replied on December 18 as follows:

December 18, 1952.

Mr. Donald Gordon,
Chairman & President,
Canadian National Railways,
Montreal, P.Q.

Dear Mr. Gordon:—

I am to thank you most kindly for your letter of the 1st inst. relative to Mr. R. S. Pitt, and I am to press for a full impartial inquiry as to wherein he failed in his duty to assure "faster improvement" of conditions of operation while serving as manager of the Fort Garry hotel. According to our information considerable improvement was effected during his term of office of which many of us here, personally observed.

We believe you were wrongly advised by your general manager of hotels and cannot help but feel there must have been a motive for this, which very probably dates back a number of years:

In fairness to this war veteran and having due regard for his length of service with the hotels branch of our National Railways, we think you should be willing to initiate the inquiry pressed for.

Yours faithfully,

H. T. Pizzey,
Secretary-Manager.

The CHAIRMAN: And Mr. Gordon's answer to that letter?

Mr. KNIGHT: I have not got Mr. Gordon's answer here. Mr. Gordon can probably put it on the record himself.

The CHAIRMAN: At this point?

Mr. GORDON: The reply is dated January 6, 1953 and it reads as follows:

Office of the Chairman and President,

Our file: E 222-3

Montreal,
January 6, 1953.
cc—R. Sommerville, Esq.

Dear Mr. Pizzey:

This is the first opportunity I have had to reply to your letter of December 18, which reached my desk in the interval between Christmas and New Year's.

Persons dismissed from the service or subjected to discipline are entitled to appeal their case to higher authority within the company. Mr. Pitt exercised that right by appealing to me. He was given every opportunity to express his views and I listened carefully to his explanations. He was then told in specific terms why the management were dissatisfied with his services at the Fort Garry and why a transfer to another hotel was considered in the interests of the company. I can assure you therefore that this matter has already been the subject of an impartial inquiry following which I confirmed the decision of the general manager of hotels. Mr. Pitt has accepted that decision and so far as I am aware has authorized no one to make further representations on his behalf. Consequently, however well meaning the motives may be I suggest that further correspondence on this subject is inappropriate.

A decision of this kind is always difficult to make but it is of course the duty of management and no one else to make such decisions. There have been suggestions made that some improper pressure was brought to bear on management in connection with this case. This I have already publicly denied and I repeat that the decision was made solely on our own assessment of what was required in the best interests of our hotel organization.

I have complete confidence in our general manager of hotels so that I attach no credence whatever to the intimation in your letter that I was wrongly advised, arising out of some motive dating back a number of years.

Yours sincerely,
D. GORDON.

H. T. Pizzey, Esq.,
Secretary-Manager,
The Canadian Legion, B.E.S.L.,
Saskatoon Branch No. 63,
Saskatoon, Sask.

Mr. KNIGHT: In concluding my few remarks I simply say that I am not making any charge. I like to speak only of the things that I know, and my whole motive in this matter has been that I was requested to do so because some people in my constituency asked me. They have an interest in Mr. Pitt as well as in the efficiency of the system and in the railroad itself. Perhaps it would be a good thing to get the facts out into the clear light of day.

The CHAIRMAN: I think, Mr. Macdonnell, I should see other members of the committee. You have already had one chance. Now, Mr. Gillis?

Mr. GILLIS: I am a member of this jury who is not biased one way or another. I have received no letters on this matter.

Mr. McCULLOCH: No politics!

Mr. GILLIS: And no pressure of any kind. All the previous people who have taken part in this debate apparently have been influenced by some external pressure, because there are letters on it.

Mr. FULTON: Mr. Chairman, I think that statement is completely out of order. Mr. Gillis knows that it is completely incorrect.

The CHAIRMAN: Mr. Gillis has the floor.

Mr. GILLIS: I listened with great attention to Mr. Macdonnell and Mr. Fulton and others without any interruptions. So having had no push from the outside, I have made up my own mind on this thing and it differs a little bit from my colleagues on the committee.

My reaction to the whole discussion is this: first, Mr. Pitt has not made any request to anybody to raise this storm on his behalf. So my own reaction to the matter is this: that political propaganda, just like communist propaganda, requires a victim, something to hold out on the end of a stick and wave. It is a good method of propaganda and in this particular case I am afraid that that is the purpose for which Mr. Pitt is being used, perhaps unwillingly.

The whole trouble arises out of inspection reports. We all know how inspection reports can be in many instances. As Members of Parliament we have all had that experience. Now, as I see it, Mr. Gordon has told this committee that there has not been any political interference in so far as the management of the railways is concerned. On his word of honour to the committee he has made that statement. So far as I am concerned, I am accepting it.

Mr. GORDON: Thank you.

Mr. GILLIS: He has buttressed his facts with further evidence which strengthens my opinion in that direction, and that was that previous to the Prime Minister's visit, instructions had been issued by the management that an investigation of the hotel set-up should be undertaken. And at the time of the Prime Minister's visit to Winnipeg and to the Fort Garry took place, that investigation was in the process of being carried out. The Prime Minister's visit was included in it by accident. It happened to take place during the process of this job. And as far as I am concerned, I am convinced that in so far as the management of the Canadian National is concerned, there was not any external pressure of any kind.

Now there was a vote taken here on the question of the production of papers and so on. If a vote like that was taken in the House, where the government was involved, for the production of papers, I would support that vote because I think it is the responsibility of the government to give the members of parliament information which they may require to resolve some problem in their own minds. But in committee, I think it is an entirely different proposition.

Had we voted to produce those papers, you would be bringing down the private files of Mr. Pitt, as one of the 125,000 employees of the Canadian National system. Mr. Pitt's private files are his private business and I do not think this committee has any right to ask to have his private business and I do not think this committee has any right to ask to have his private business, the business of management, put on the record here unless he has specifically requested this committee to do so.

As in business, any person in the Canadian National or in any other Crown set-up who has a grievance with management has certain procedures to follow in regard to management. And that was done in the case of Mr. Pitt. A report was made to Mr. Gordon and as far as I am concerned, Mr. Pitt was absolutely satisfied with the arrangement which was made. Moreover, I think that perhaps the resulting publicity given Mr. Pitt is not going to do him very much good. I think all it does is to keep him in a state of anxiety. Therefore, I am against the production of these papers unless Mr. Pitt applies to the chairman of this committee or the secretary with a specific request that his private file should be made the property of the committee at this time.

Now in the matter of demotion, I do not think Mr. Pitt received a demotion at all. He was shifted from a hotel where he had a great deal of responsibility and he was sent to a hotel where his responsibility was not so great. He receives the same remuneration by way of salary at the new hotel which he had at the other one, while his duties have been reduced, and he has taken over a smaller hotel. Therefore I cannot see any demotion there.

On the second vote, my colleague and I split our vote. I voted against calling Mr. Sommerville and Mr. Pitt before this committee for the reason that Mr. Macdonnell and Mr. Fulton argued.

Mr. FULTON: I did not think that we had had a vote on that yet.

Mr. GILLIS: I thought we had voted on it.

The CHAIRMAN: That was a vote on a ruling of the chair.

Mr. GILLIS: The chair ruled on it and I supported the ruling of the chair that these people be not called, and I supported it for this reason: That this committee would then be doing exactly what Mr. Macdonnell and Mr. Fulton accused the government of doing, that is, using political pressure on this committee to defeat a decision of management that has already been made. This committee consists of members of parliament of all political stripes. Management has already made its decision in this particular case. If this committee voted, against the decision of management, to call the two witnesses in here and subject them to political scrutiny and pressure, then management would be denied a decision already made.

This would be the first time, as far as I am concerned, that political pressure would be used on a decision already made by management of the Canadian National Railways, and we would be interfering with the function of management in that respect.

I feel very strongly on that point for this reason: that there is another large organization in this country, the Canadian Pacific Railway. And if the time ever comes when the Canadian Pacific Railway and the officials and management of the Canadian Pacific can be called before a public committee of any kind in this country, and a decision made by the management of the Canadian Pacific can be criticized and scrutinized and witnesses called to go over the business of the Canadian Pacific Railways, then, when that time arrives, I will be prepared to make a decision in this committee in regard to the Canadian National Railways. But until you reach that point, as far as I am concerned, I am against any pressure upon this committee to interfere with a decision already made by the Canadian National Railways.

Now, Mr. Chairman, I would be the last man on this committee to condone an injustice to an employee of any company in this country. I would be the last man to do so for the simple reason that I have gone through that thing a good many times in my life time, when the boss would take a swing at you and there was no appeal available to you in the universe. You simply could walk out and try to find another job. But in this particular instance I think I have pointed out the basis on which I have arrived at a decision. In Mr. Macdonnell's case I think he was carried away by emotion.

Mr. JAMES: He should have been.

Mr. GILLIS: Mr. Macdonnell was carried away by a lot of misleading editorials and pressure from outside. He did not place any facts on the record. It was all something from outside. It was nothing that he had of his own personal knowledge. And for that reason I could not support him.

I believe that Mr. Gordon has acted fairly in this matter. He has defended Mr. Pitt. Management made the decision, and I do not think it is the prerogative of this committee to try to use its weight to change that decision in any way, shape or form. If we did so, we would be assising the very proposition that Mr. Macdonnell and Mr. Fulton are so anxious to avoid.

Mr. MACDONNELL: I was up the last time, Mr. Chairman.

Mr. McCULLOCH: You have been up three or four times.

Mr. MUTCH: There does not seem to be any alternative system. But let it go. If it is a monologue, I can listen.

Mr. MACDONNELL: I would like to repeat one sentence from what I said this morning to confirm what I said to you a few minutes ago. I indicated that Mr. Pitt, through a mutual friend, indicated his willingness to appear before the committee. Mr. Gordon told us last night that Mr. Pitt was ready to come and give his evidence. But as I understand that, it is not going to happen. I assume that from the tenor of this committee. Therefore I ask your permission to read a couple of letters from Mr. Pitt to Mr. Sommerville dated October 25 and November 11 which have a bearing on this.

Hon. Mr. CHEVRIER: Mr. Chairman, on a question of privilege I would like to know, before any further use is made of these letters, and since they are inter-departmental correspondence, I would like to know how Mr. Macdonnell got them. Unquestionably they are contrary to the rules of this committee and to the motion which was approved, and I would like to know how Mr. Macdonnell got them.

Mr. MACDONNELL: I got them from the very gentleman I spoke of and I do not see any need to mention it. I am taking the responsibility for this on myself and I am asking to be allowed to read these letters.

Let me say that if Mr. Pitt were to be called, there would be no need of my reading these letters.

Hon. Mr. CHEVRIER: May I ask a question, the same question which I asked of my hon. friend from Kamloops. I should like to know the same of the gentleman who is the intermediary between the Pitt and yourself.

Mr. MACDONNELL: I do not see that that is any concern of the minister. I have perfect confidence in that man and I am assuming this responsibility for reading these letters. Mr. Chairman, I wish to be allowed. Surely there is some fairness in this business.

Mr. JAMES: You have not shown it yet.

The CHAIRMAN: Mr. Macdonnell, you cannot accuse either the chair or the committee—

Mr. MACDONNELL: The chair has been very fair.

The CHAIRMAN:—of any unfairness. And I would like to have an opportunity of considering this matter. You see, you are attempting to introduce now by the back door—

Mr. MACDONNELL: No, I have asked that Mr. Pitt, Mr. Chairman—that this committee request Mr. Pitt to come before it. I take my seat and say no more.

The CHAIRMAN: No. You see, I want to hold the scales absolutely level, and I hope I have succeeded in doing so. The point that concerns me is this, Mr. Macdonnell, that I sincerely believe that you are now attempting to introduce—I will retract the words “back door”—you are trying to introduce by another method documents which this committee has decided are not producible before it. Now, if I may just carry that on. I am not definitely ruling now, but in the circumstances it is clear what you want, and I am going to ask for time to think that matter over, and I am going to ask to see the letters.

Mr. MACDONNELL: Well, now, Mr. Chairman—

The CHAIRMAN: And I will say in advance if they are strictly inter-departmental correspondence, as far as I am concerned they are out. The committee has already made the decision on that.

Mr. FULTON: May I point out the committee has decided the management cannot be compelled to produce these letters as they are privileged documents in the hands of the management, but I submit if a member of the committee comes forward and says I have letters whose authenticity I vouch for, then unless a member of the committee is able to challenge the authenticity of those letters, the member is perfectly entitled to produce them.

Mr. MACDONNELL: May I point this out. There has been a question raised in which Mr. Gordon says that he has not heard me state any facts. I observe he did not question any of the things I said as to facts, but I am now seeking to repair—I recognize that weakness—and I want to read those letters because I submit that when the committee hears them they will feel that so far as Mr. Pitt is concerned a lot of the things that I have said will be confirmed. These are letters from Mr. Pitt to Mr. Sommerville with regard to his own affairs. I have some responsibility in this. I have taken a great deal of pains in connection with this matter. I have some concern about Mr. Pitt and I have taken great pains that Mr. Pitt knew just what was involved in this. I did not deal with it carelessly, and I have these letters which have come to me and which I had hoped I would not need to use because I hoped that Mr. Pitt would come. I said last night if any question as to these facts was raised I would ask to have Mr. Pitt come here. That is not going to be done, I am afraid, as I sense the committee will not agree to that. Otherwise, I am left in the position that Mr. Gordon has not challenged the facts I said last night, except in a general way he said he did not hear me state any facts. I want now to be able to bring the evidence of one of the two men we are denied. I want the evidence of Mr. Sommerville, and as to the other man, I have here letters which were written to Mr. Sommerville by him. Surely it is fair—

The CHAIRMAN: Yes, but may I point out—are these letters originals or are they copies?

Mr. FULTON: The originals are in the file. You cannot have the original and the copy of your own letter.

The CHAIRMAN: The evidence which you wish to produce is strictly copy evidence. You do not know whether the copies are accurate or not, of your own knowledge. You believe them to be correct, and you are willing to assume responsibility they are. But stop and think for a moment. If I, as chairman of this committee, allowed any member of the committee to produce copies, and then it turned out they were highly inaccurate, would I be performing my duty?

Mr. FULTON: Mr. Macdonnell says he is prepared to show them to Mr. Gordon to see if they are accurate copies or not.

The CHAIRMAN: I asked to see them and I was declined.

Mr. MACDONNELL: I was hesitant about this.

Mr. GORDON: I do not understand that to be the point, Mr. Chairman. I understand that these are letters which were sent between the Fort Garry Hotel manager and the general manager of hotels, having to do with personal affairs of the manager of the hotel. It has to do also with company business. I know the letters, I know the statements that are made in them, and I say that that is not the sort of thing that should be discussed in his committee. It is interdepartmental correspondence.

The CHAIRMAN: I indicated, Mr. Gordon, that I wanted to see the copies because I wanted to reach a decision as to whether they were interdepartmental correspondence, and I indicated at that time that if they were, they were out. The committee has already ruled on that, and that is why I wanted to see them, to see first if they are originals and also if they are interdepartmental correspondence.

Mr. BROWNE: Mr. Chairman, may I ask a few questions. I have no statements to make, just a question to ask the witness.

Mr. MUTCH: Who is the witness?

Mr. BROWNE: I understand Mr. Gordon is here as a witness. Could you tell us, Mr. Gordon, how long Mr. Pitt has been in the C.N.R. hotel business?

Mr. GORDON: He entered the service of the Canadian National Railways on May 22, 1928.

Mr. BROWNE: Where was that, at Ottawa?

Mr. GORDON: At Jasper.

Mr. BROWNE: When did he serve in Ottawa?

Mr. GORDON: He served in Ottawa according to this record from June 6, 1933 to December 7, 1936.

Mr. BROWNE: Where did he go then?

Mr. GORDON: He then went to Halifax December 8, 1936, and he left for enlistment on November 1, 1941.

Mr. BROWNE: When did he come back to the hotel business?

Mr. GORDON: He came back on August 15, 1946. He reported for duty then.

Hon. Mr. CHEVRIER: All these questions of yours, Mr. Browne, were answered in a question for Mr. Macdonnell on December 10, 1952, at page 517, *Hansard*.

Mr. BROWNE: And it has been published?

Hon. Mr. CHEVRIER: Yes.

Mr. GORDON: He returned to the service of the hotels on August 15, 1946.

Mr. BROWNE: And each one of these changes of Mr. Pitt's was an improvement up to the time he went to the Fort Garry?

Some Hon. MEMBERS: Brandon.

Mr. BROWNE: No, Fort Garry.

Mr. GORDON: No, I could not say that. He was transferred from one hotel to another.

Mr. BROWNE: Was it a more responsible position in each case?

Mr. GORDON: It is a matter of balancing. I could not say whether the Halifax hotel is more responsible than the Bessborough. They are about on a par.

Mr. BROWNE: Did the representations about the treatment of the Prime Minister and his party come to you directly or indirectly from Mr. Sommerville?

Mr. GORDON: The reference that I heard of the treatment of the party came to me from several sources and did not reach me through Mr. Sommerville in the first instance.

Mr. BROWNE: Did you not say that you had a recommendation from Mr. Sommerville before September 21, 1952?

Mr. GORDON: No, I do not think I said that.

Mr. BROWNE: I took down your statement and I understand that was what you said.

Mr. GORDON: No, I said that Mr. Metcalf under date of September 22, wrote to Mr. Sommerville asking him to make a review of the hotel operations.

Mr. BROWNE: On your instructions?

Mr. GORDON: Under my instructions, yes.

Mr. BROWNE: Did you tell Mr. Sommerville directly to send for Mr. Pitt's file on the treatment of the Prime Minister and his party?

Mr. GORDON: No, I did not. I left it to Mr. Sommerville to conduct the investigation in his own way.

Mr. BROWNE: Did you examine the file personally or did Mr. Sommerville examine the file and make a recommendation as a result of that examination?

Mr. GORDON: Mr. Sommerville examined the file and reached a conclusion and then made his recommendation.

Mr. BROWNE: Did you ever examine the file?

Mr. GORDON: When he made his recommendation to me I went over the file of the incident and the whole file of Mr. Pitt's service, and after discussing it with Mr. Sommerville and Mr. Metcalf I confirmed the decision of the general manager of hotels.

Mr. BROWNE: It was Mr. Sommerville's first decision?

Mr. GORDON: It was Mr. Sommerville's first recommendation.

Mr. BROWNE: Were there any changes made at that time in the hotels, apart from Brandon and Winnipeg?

Mr. GORDON: Oh yes. There was a shuffle. I would have to check. There was a transfer from the Bessborough to the Fort Garry and from the Fort Garry to Brandon. There was a three-way shuffle.

Mr. BROWNE: Have you given to Mr. Chevrier, the Minister of Transport, the whole story of this thing?

Mr. GORDON: I wrote to Mr. Chevrier after I saw the newspaper reports and the statements which were made in the House. I wrote him a letter in which I said I thought I should give him the general information about this particular shift.

Mr. BROWNE: Is it your opinion that you do not have to give anybody an explanation of what you do? Would you admit that you should give it to Mr. Chevrier if he asked for it?

Mr. GORDON: No, I do not admit that. However, I do keep the minister informed on any matters of interest which I think he should have affecting the management. But I do not look to Mr. Chevrier either to confirm my decisions or to comment on them.

Mr. BROWNE: Is it your opinion that you do not have to give your reasons to him?

Mr. GORDON: I do not have to give my reasons when I make decisions on management.

Mr. BROWNE: It is your opinion?

Mr. GORDON: In respect of the treatment, or in respect to an employee's demotion or discipline I say that the management of the system must be in charge.

The CHAIRMAN: It is now 1.00 o'clock and we shall adjourn until 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3:30 p.m.

The CHAIRMAN: Gentlemen, when the committee adjourned for the noon recess, I indicated that I would consider the matter and would make a ruling, but during the noon recess Mr. Gordon contacted me and he has asked to have the opportunity of making a statement before I make my ruling.

Mr. FULTON: May I ask one question as to the point with which Mr. Gordon's statement is going to deal?

The CHAIRMAN: Mr. Gordon says, as he feels so strongly on this question of outside interference with the staff of the Canadian National Railways, that in view of what Mr. Macdonnell had indicated the letters were, namely, that they were interdepartmental correspondence, he wanted to have an opportunity of making a statement, and I believe it would be the wish of the committee that he should do so.

Agreed.

Mr. GORDON: Mr. Chairman, the letters in question are on letterheads printed "Interdepartmental Correspondence". Consequently, I telephoned Mr. Pitt during the luncheon period to ask him if he could tell me how copies of these letters could have been released from the files. Mr. Pitt says he showed the letters to a friend in the course of discussing his transfer and to explain his position, because at that time he felt badly although he had accepted my decision in his case. He did not intend, nor does he intend now, that these letters, which are from the files of hotel management, should be produced in the present discussion. He specifically stated he has not been asked for permission to publish them and that he has not authorized anyone to publish the letters or place them on record anywhere, and that he would refuse such permission if it were requested. I asked him if he would care to tell me to whom he showed these letters. Mr. Pitt asked me not to press him, because he did not wish his friend's name brought into this discussion, and said he was tired of the whole business. He has been trying to avoid publicity, he says, but he has been pressed for statements and found difficulty in avoiding discussion of the press reports. I agreed not to press Mr. Pitt. Mr. Pitt also expressed the fervent hope that the whole matter be dropped so that he could get on with his job and his work for the future. He said the whole affair was one of great personal embarrassment to him, although he appreciated the efforts of his friends were well intentioned.

Now, Mr. Chairman, I would like to call the rest of this statement, which I hurriedly prepared, through you, to the personal attention of Mr. Macdonnell. If these letters are tabled, naturally I shall have to deal with the various statements in them by Mr. Pitt, and which were written by him to be brought to my attention giving his version of a number of instances reflecting upon his management. Let us see where that brings us to. I have under my hand a serious complaint about her hotel reservation, for example, from a woman customer of the hotel in November, 1951—and there are others. This woman is a customer of the hotel. Obviously if a customer of the hotel cannot make a complaint about the service given without my having to table it in the record in such fashion that her name is published in sensational terms in the public press then both the reputation of our hotels will be damaged and people will prefer to patronize establishments where they can exercise their healthy desire to gripe about our service to their hearts' content.

I speak for Mr. Pitt, therefore, as the author of these letters, in requesting that they be neither tabled here nor published elsewhere.

Mr. MACDONNELL: I hope and believe, Mr. Chairman, that you will allow me to make a statement.

The CHAIRMAN: Well, Mr. Macdonnell, you have already made a statement, but if you wish to make another one, I will let you.

Mr. MACDONNELL: What I think I should say is this: I have had some experience in human relations and from the very outset I was deeply concerned with Mr. Pitt's part in this. I took the greatest pains. This was brought to my attention by the man to whom I have referred, and who is a man of high standing, with whom I have been in communication throughout. I took the greatest pains to bring to Mr. Pitt's attention the true significance of what was going to happen here, because I realized that he was in an embarrassing position. I realized that he might injure himself if the matter was pressed further and I did my very best to make clear to him what the situation was, and in particular to make clear to him that we were naturally going to be put in a difficult position in this committee, and that we were going to be in a minority. And I said that if we were to champion his case at all, if we were to be able to make good on the suggestion which I originally made, that we would have to have the correspondence and be free to use it.

I have enough intelligence to know that if the situation had been that we had correspondence which we could not use, we would be in a ridiculous position. I received a letter from my friend after this telephone conversation in which I made it very clear. I spoke to another friend of Mr. Pitt's who, I think, was encouraging him to press the matter. I made it very clear what was involved, and it was only after the greatest care was taken to explain the situation that the letters which I have here were sent to me and received yesterday.

They were accompanied by a letter which permitted me to say, as I said last night, that Mr. Pitt would be glad to come if he were called. They also sent this material for use. I made it very clear, naturally, that it would be no good to me if it could not be used.

I believe the committee will believe that I am speaking the truth. I am naturally embarrassed now. There is no use in denying that. Mr. Gordon has spoken to Mr. Pitt. Mr. Gordon is a man of prestige and power and he has told us what the conversation was which took place between him and Mr. Pitt.

This particular matter is being decided certainly in a way which is unexpected to me. But on the other hand, Mr. Chairman, I suggest that it makes it more than ever necessary that this situation should be explained by Mr. Pitt himself, and that he should be asked to come here.

As to my personal embarrassment, I shall swallow that as best I can. I shall not pretend that it is pleasant to go along as I have done, taking every precaution to make sure that I would not put myself in a foolish position, and now to be put in a position where anyone who wishes to be unkind about it, or even those who do not wish to be unkind about it can say "the joke is on you".

I know that I have enough sense to know the position in which I stand at the moment. I have tried to have regard to both Mr. Pitt's interests as well as the public interest, and the outcome is a surprise to me.

I repeat, however, that we have before us the motion for the calling of Mr. Pitt and I hope you will put that motion, Mr. Chairman, and that if the committee wishes to have Mr. Pitt come here, then he may be able to come. I thank the committee for giving me this courteous hearing.

MR. FULTON: One point, Mr. Chairman, before you make a ruling. I think it is important for the committee to understand particularly in the light of what Mr. Macdonnell has said and in the light of what Mr. Gordon had said that Mr. Macdonnell should be able to read into the record certain copies of letters written by Mr. Pitt. It is now suggested that the committee should not hear them, and that Mr. Macdonnell should not be allowed to read them. I would point out that in connection with both the admissibility or the hearing of these letters and also on the point as to whether or not we should call Mr. Pitt, I would like to make this as a statement of fact: that we have not heard Mr. Pitt.

We have on our part been faced with the objection raised when we seek to put facts into the record, that it is not direct evidence. I suggest that the committee might well consider in connection with this point whether in fairness to itself now we should not accept a further *ex parte* statement concerning Mr. Pitt's attitude. We are bound to call him now and get evidence from him which might indicate that he does not wish to press this matter, but which I am satisfied will establish that Mr. Pitt at one point, by means of an intermediary to which Mr. Macdonnell has referred, indicated his willingness to have these letters read into the record.

Therefore before the motion is proceeded with I raise this point because I want this to be perfectly clear. I think that Mr. Gordon understands me. There is the question as to the best evidence and the admissibility of evidence

and whether we are justified in making statements as to Mr. Pitt's intentions and desires. If there is no opportunity for Mr. Pitt to come, the committee will be making a decision on the basis of an ex parte statement without an opportunity of having the witness himself appear before the committee, so that it can get the best evidence within the strict meaning of that term.

Mr. MUTCH: Question!

The CHAIRMAN: I apologize to the committee for reading my decision.

Mr. BENIDICKSON: Let us say it is a considered opinion.

The CHAIRMAN: Mr. Macdonnell has stated that he has copies of letters written by Mr. Pitt to his superior officer, and copies of replies to these letters, which he intends to read into the record. Mr. Macdonnell has stated that he has received these copies of letters from a reliable source, and that as a member he takes full responsibility that the copies are authentic and are accurate. I indicated at the time of the noon adjournment that I would consider the admissibility of this evidence.

This material is obviously inter-departmental material. The committee has already sustained a ruling of the chair to the effect that the committee should not order production of inter-departmental files dealing with staff matters. The attempt now made is an attempt to introduce as evidence before the committee material which the committee has indicated the Canadian National Railways should not be compelled to produce. The president of the company has declined to produce this material, and has given reasons for his refusal, with which the committee, by recorded vote, has already expressed its approval.

Mr. Gordon has stated that Mr. Pitt has indicated that he has given no authority for the publication of the letters and that he does not want them published.

I therefore rule that Mr. Macdonnell should not read into the record of the committee the copies of letters in question.

Mr. BROWNE: Did you consult Mr. Gordon before you wrote that judgment, Mr. Chairman? If you did not, then why did you say "Mr. Gordon has stated that"?

The CHAIRMAN: I have amended my ruling after hearing Mr. Gordon's evidence and I wrote it while I was sitting here.

We now have a motion before the chair that Mr. Pitt and Mr. Sommerville should be called to give evidence. Are you ready to vote on the motion? All those in favour?

Mr. FULTON: Mr. Chairman.

Hon. Mr. CHEVRIER: You have already spoken on that motion, my friend.

Mr. FULTON: I did not think that further intervention would be welcome, but I rise for the purpose of again placing before the committee considerations which I think now more than ever indicate that in order for the full facts and all the facts in this case to be before the committee, Mr. Pitt should be called. In saying that I want to make it perfectly clear that I say "the full facts and all the facts", because I remind the committee that Mr. Gordon has declined for reasons which he regards as sufficient, to give all the facts.

I am not reflecting on any facts which Mr. Gordon may have stated but I emphasize the fact that he has declined to give all the facts. Therefore if we in this committee are to get all the facts, it can only be done by the calling of these witnesses. I suggest to you, and I do not think there is any need to elaborate the point, that the matter is one of sufficient seriousness for this committee to consider very carefully whether it should let the matter stand where it now is, that is, on the basis of certain assertions which have been made. We have a statement of facts made by Mr. Macdonnell in which he

has indicated that he is in a position to substantiate. But now that the documents are not to be produced, it can only be substantiated by the calling of these witnesses. That is the position that we are in.

We are only going to know the facts or prove the accuracy of the statement if we get these witnesses. I am not saying that as to the accuracy of Mr. Gordon's statement, but I am saying that the facts which Mr. Gordon refused to disclose can only be obtained if we call these witnesses. And I would remind the committee that to refuse to call these witnesses, and particularly Mr. Pitt, on the basis of what has taken place here puts us in a very invidious position and places Mr. Pitt in a very invidious position as well.

What happens? Mr. Macdonnell indicated that as a result of very careful—and I submit responsible—consideration of the matter, he communicated with Mr. Pitt, and that he had certain answers communicated to him, which answers were checked and double checked. I know for a fact that this matter was not decided over night.

The CHAIRMAN: Through an intermediary.

Mr. FULTON: Through an intermediary, yes. That has been admitted and there is no reason to conceal it. I admit it readily.

Hon. Mr. CHEVRIER: Who was the intermediary?

Mr. FULTON: The question has been asked.

Hon. Mr. CHEVRIER: Why can we not get an answer?

Mr. FULTON: You will have to ask Mr. Macdonnell that question.

Hon. Mr. CHEVRIER: I have, but he won't answer it.

Mr. FULTON: As Mr. Mutch has said, Mr. Macdonnell's good faith has not been challenged, and so far as I know the accuracy or reliability of the intermediary has not been challenged.

Hon. Mr. CHEVRIER: There has been no opportunity.

Mr. FULTON: If there is any challenge, it should be disposed of by producing the documents in question, and it may still be disposed of by calling Mr. Pitt. There is obviously a question as to the accuracy of Mr. Macdonnell's statement and reliability and responsibility that is, of course, inherent in the interruption just made, and I submit that it only reinforces the argument of the necessity for calling Mr. Pitt.

May I return to the point I was making when the minister asked me his question?

The CHAIRMAN: Yes.

Mr. FULTON: I ask the committee to consider the position in which we are placing ourselves, our own principles, our own members, and Mr. Pitt, if we refuse to call him.

Mr. Macdonnell informed us that as a result of a careful check and cross-check he had authority to give us his statement of facts by reading certain documents into the record. But if these documents should be refused on the part of the management of the railway, nevertheless these statements are made on the responsibility of Mr. Macdonnell as a member. We are now told that as a result of another telephone conversation, without ever having had Mr. Pitt before us—

The CHAIRMAN: And without an intermediary.

Mr. FULTON: And without an intermediary except the telephone line, and with no one else present, there was a conversation between the president of the railway and the manager of one of his hotels, which manager has just been demoted. We are told that the manager of the hotel has changed his mind.

Mr. GORDON: Oh no. I did not say that.

Mr. FULTON: Mr. Gordon did not say that. I wish to be perfectly accurate. I accept his correction. We are told however that the manager does not wish now to proceed further with this matter.

Mr. GORDON: May I re-read my statement?

Mr. FULTON: Please do.

Mr. GORDON: He said that he did not intend, nor does he now intend that these letters which are from the files of hotel management should be produced in the present discussion. He specifically stated that he has not been asked for permission to publish them and that he has not given authority to anyone to publish the letters or to place them on the record anywhere, and that he would refuse such permission if it were requested.

Mr. FULTON: Thank you for re-reading that statement. We are now told that as a result of a telephone conversation between the president of the railway and the manager of the Prince Edward hotel who has recently been demoted. We are saying now if the committee refuses the motion to call Mr. Pitt, and we are saying that this is inescapable, it certainly poses a very grave question on the whole of the previous statement of Mr. Macdonnell to accept that statement and foreclose the rest of Mr. Macdonnell's statement or, in a word, not permit him to prove the accuracy of his previous assertions. Mr. Chairman, I submit to you sir, that that is a position which this committee must not take. This committee of the House of Commons of which all members are members of the House of Commons should urge, and every consideration of the position of this committee and the function which we are called upon to perform here of examining into the activities of the Canadian National Railways system and, if necessary, to examine into the activities of the president of that system, should argue conclusively that the committee cannot foreclose one of its members, who has made certain assertions, the right to call the witness who is going to prove the accuracy of those assertions when the only denial of the accuracy of these assertions and indeed of the accuracy of all the facts surrounding these things—the other facts which the member of the committee has stated on his own responsibility—and the only denial of these facts comes from the president of the railway, and the denial if it does amount to a denial of Mr. Macdonnell's assertions comes from the president as a result of a telephone conversation—ex-party evidence as a result of a telephone conversation—between the president of the railway whose activities are under investigation here, and as a result of a conversation between him and the witness who some members of this committee at any rate desire to call.

I submit to you sir that that is an impossible and an improper position for any responsible committee or any responsible legislative body to place itself in to accept any suggestion that the witness should not be called and that we cannot get at the facts from the mouth of the person who knows the facts and with whom there has been previous communication in a responsible effort made by the member of this committee to determine the grounds upon which he would make the assertions of fact.

I cannot conceive, sir, that this committee could ever maintain to the House or to the country that it is discharging its responsibility of getting at the facts, the facts surrounding the charge not against Mr. Gordon, but facts surrounding the charge of interference with Mr. Gordon without foreclosing itself as it would be if it rejected this motion, from an opportunity of getting the facts which themselves are now controverted, and forecloses itself on the basis of a statement—an indirect statement—by the president of the railway on a telephone conversation which he has had with the man whose case is now under dispute before us.

Hon. Mr. CHEVRIER: Perhaps I may be allowed a word in answer to what the member for Kamloops has stated.

He has just stated in his closing remarks that if Mr. Pitt is not called to give evidence then the committee will be foreclosing one of its members in that it will not allow him to produce the correspondence that he desires to produce.

My humble submission to this committee is that Mr. Macdonnell, and I say this with all deference to him, has foreclosed himself in that he has brought here correspondence and he will not tell us where it has been obtained, and I think this committee has been more than fair to both Mr. Macdonnell and Mr. Fulton and their supporters in listening for almost two sessions now to what, again with deference, is a very small matter in the affairs of the Canadian National Railways dealing with hundreds of millions of dollars. We have now spent almost two sessions dealing with this matter and my point here is that since we have been fair in giving him all that latitude, at least he should be fair to us, and tell us who this intermediary is and how he obtained the correspondence, because I have never heard of this method of getting correspondence, correspondence particularly between departmental officers.

I think if I were the person involved, for instance an employee of the Department of Transport way down in Halifax or at Vancouver and in communication with the marine superintendent in Ottawa and that correspondence was produced here contrary to all the regulations of this House, I would have every reason to be annoyed. But Mr. Macdonnell comes along and says some mysterious individual has given him correspondence and you Mr. Chevrier, you cannot have that information.

I think we should have it, and I am not any further in challenging the personal position of my honourable friend. I will not take advantage of it. I do not think I should, and I do not think it would be fair, and I do not want to show the slightest bit of unfairness towards him or anybody else in this committee. But I want to make another point, and it is this. This committee, Mr. Chairman, is being used as a vehicle to publish letters which have come into the hands of Mr. Macdonnell and which the author himself, after the evidence given by the president of the Canadian National Railways, says he has not authorized publication of, and would refuse to give such information if he were asked.

Now surely that is enough evidence to indicate once and for all that my honourable friends are in a rather difficult position in so far as their case is concerned. I am afraid that the balloon that they have for days and weeks blown up is just on the verge of exploding and, I hope they will not take offence when I use that expression, but I fear that is exactly what is happening.

I regret that the committee is being used as a vehicle for that purpose. The committee on railways and canals has been established for the purpose of considering the accounts of the Canadian National Railways and I submit to the committee that the sooner we get back to a study of the accounts of the Canadian National Railway the better it will be for all concerned.

Mr. MACDONNELL: May I just add a few words. I think Mr. Fulton has set out the argument and I endorse what he has said, and I do not intend to repeat it. I just wish to say, I wish to remind this committee, that in coming here we came, I came, among other reasons, under the strong urging of Mr. Howe and I want to point out, it seems to me, that the difficulty which we now face, and I confess to you I do not feel happy about this, but I am not going to repeat what I said before that I took all the pains a reasonable man could

take in so far as in getting the name of the man in Winnipeg is concerned and I have assumed the responsibility for that. It came from a man of standing and responsibility.

An Hon. MEMBER: In the party.

Mr. FRASER: That is uncalled for.

Mr. MACDONNELL: The final thing I wish to say is this, that this man if he is asked to come here can tell us his own story. I can imagine that the president of the Canadian National Railways is a very persuasive man. I have found him persuasive and no doubt if I was in his employ I would find him still more persuasive. We have an opportunity of having this man come and give his evidence and I suggest that is the natural thing to do.

Mr. CHURCHILL: Before putting the question, Mr. Chairman, there is a point of information. I am not questioning the accuracy of the statement which Mr. Gordon has given us, but I would like to know from curiosity by what means the telephone conversation that he had with Mr. Pitt was recorded, and if that entire conversation has been recorded.

Mr. GORDON: The conversation took place in my own room in the hotel direct with Mr. Pitt over the Bell Telephone line and I jotted down notes and repeated them to him as I took them down and I explained to him as best I could what was involved. I said to him that these letters were in the possession of Mr. Macdonnell and that I wanted to ask him to tell me how these copies had been released from the files. Mr. Pitt at once said he had shown the letters to a friend as he mentioned on the statement, and I then asked him if he intended these letters to be produced for publication, and he definitely assured me he had never intended that. He had not been asked for permission to publish them and he would not give permission if such permission were asked. It was never his intention they be used for that purpose and I can give you my assurance that there was no bullying tactics on my part at all. I simply talked to him and told him what it was I wanted to know.

The CHAIRMAN: Are you ready for the question?

Mr. GORDON: Mr. Chairman, there is just one more part of the question. To the best of my knowledge I have recorded all the conversation.

The CHAIRMAN: I am going to ask for your indulgence. As Chairman I would like to make a few remarks before putting the question as I understand everyone else has spoken who wishes to do so.

Mr. GILLIS: Do not set up a chain action.

The CHAIRMAN: Parliament has charged this committee with responsibility of checking into the activities for the past year of a corporation with a capitalization of nearly 3 billion dollars. We have been asked by certain members of this committee to check into a matter regarding staff. The president of the road has indicated—and I think that Mr. Gordon's word in that regard should be accepted and will be accepted by everyone,—the president of the road has indicated that in his opinion it would be harmful to the organization if this information is given or if this matter is inquired into at all by this parliamentary committee of politicians. The founders of the road—and I will refer to conservatives since it was conservative members of this committee who brought up the point and I hope no offence will be taken because I do that,—I refer them to the word of Sir George Foster, Sir Thomas White, and Right Honourable Arthur Meighen clearly indicating that the reason the government of the day decided to have corporate management for this organization, was in order that incidents similar to the one now before the committee should not be dealt with by politicians but should be the sole responsibility of management.

Now, in the light of that, let us look at what happened. I have every sympathy for Mr. Macdonnell in position he finds himself in, and I have considerable regard for him and if I were in that position I know exactly how I would feel. I want to say at once Mr. Macdonnell that I accept without any reservation at all the statement which you have made that you received the correspondence in question with a covering letter stating that it could be used, but, unfortunately, your hands are tied. You are not in a position where you feel that you can disclose the name of the sender.

Where does that get us? I suggest to the committee that gets up positively nowhere. We are asked to rely upon the good faith of the statement of a gentleman or lady whose identity we do not know. On the other hand, we have the statement of the president of the railway who states that this very day at noon he was in direct contact with and talked with Mr. Pitt. Now, if I have any qualifications at all for weighing evidence, I must say I have no doubt as to which evidence I should believe, but, apart from all of that, and putting the question in the most favourable viewpoint for the gentlemen in this committee who have asked us to go into this matter, if everything which they have said should prove to be true where does that get us. It still gets us to the point where we are asked to deal with a matter which the president of the road says would be harmful to the organisation.

All those in favour of the motion please signify:

Mr. FULTON: Mr. Chairman, may I ask for a recorded vote.

The CHAIRMAN: We will have a recorded vote, and I will put the motion. I will read it. The motion is by Mr. Macdonnell that: "Mr. Pitt and Mr. Sommerville, general manager of the hotels be called before the committee." All those in favour of the motion will say aye and those opposed naye.

(The clerk proceeded to record the vote.)

Hon. Mr. CHEVRIER: Mr. Chairman, I would like to have my vote recorded as "no".

The CHAIRMAN: The motion is lost.

The committee is now on the heading "property investment account".

Mr. CHURCHILL: Mr. Chairman, could we have an explanation of the purpose involved in examining these accounts. Are we here simply to get a more detailed explanation of the information in these reports? Are we entitled to offer suggestions as to how the railway should be operated; as to what type of coal should be purchased, and so on? What are the limitations as to the work of this committee? I take it there is one subject we cannot discuss, namely staff, management and labour. Are we entitled to discuss anything else and make suggestions as to how the railway operates, or what are the limitations of the committee?

The CHAIRMAN: I would refer you, Mr. Churchill, to the order of reference, and the order of reference is: that the annual reports for 1952 of the Canadian National Railways, Canadian National (West Indies) Steamships, Canadian National Railways Securities Trust, and the Auditor's Report to Parliament in respect to the Canadian National Railways and other matters including three votes were referred to this committee. I believe it is established practice that nothing should be done in this committee to interfere with internal management and that no disclosures should be made in the committee which would strike at the competitive position of the railway. Other than that, I believe there are no reservations.

Mr. CHURCHILL: How do you define internal management?

The CHAIRMAN: I cannot do better than to refer you to the three very experienced parliamentarians who discussed that subject at the time the Canadian National Railway system was founded as a corporate entity. I have already read extracts and I would suggest you read the speeches in toto.

Property investment account.

Mr. BROWNE: On section 42 could Mr. Gordon give us an idea how much money was spent on the Newfoundland hotel alterations?

Mr. GORDON: The actual authority for expenditure covers up to \$1,245,000. As at December 31, 1952, \$1,136,000 had been expended and we estimate that the renovation is about 91 per cent complete.

Mr. BROWNE: Were these alterations carried on by contract?

Mr. GORDON: Yes. Placed with the J. L. E. Price Company, Montreal, who were the successful tenderer.

The CHAIRMAN: Carried?

Carried.

Revision of the capital structure. That was gone into thoroughly last year.

Carried.

Corporate reorganization.

Carried.

Financing in 1952.

Carried.

Now we come to review of operations, operating performance.

Mr. GILLIS: There are a few words I would like to say on this item. Yesterday we touched briefly on this question of dieselization and this is the section under which that switch-over takes place.

Now, I am not quarrelling with the report at all, but while the dieselization, particularly of the eastern end of the C.N.R. from Montreal to Nova Scotia, cures a problem for the Canadian National Railways in that they are getting a more economic operation on their freight runs, particularly with the end in view of putting those diesels on the passenger runs—the C.N.R. is making progress there and I am not quarrelling with that—but, while the Canadian National Railways are solving their problem they are creating an acute economic problem around other sections of the country with particular reference to Nova Scotia.

Now, the minister knows, because he met with a group of small coal operators from Nova Scotia here about a month ago along with the Minister of Mines from the government of Nova Scotia and they made a plea on behalf of some 1,500 employees that are employed by the small coal operators and pointed out to the cabinet that in that group of employees—and you can multiply that by $4\frac{1}{2}$, I think that is the average family in Canada at the present—they have quite an investment in property, in churches, in schools and they have valuable communities around those small operations. That delegation stressed particularly, not the question of not being able to compete with American coal in that area or not marketing our coal in the C.N.R., but their whole argument was the dieselization of that end of the line took from them their market, and they requested the government to suggest or intervene with the C.N.R. to delay that dieselization program particularly. There is one section of it that diesels will be placed on within the near future and that is from Moncton down to Mulgrave, Nova Scotia. It is the program of the C.N.R. to put some ten diesel engines on that run and it was with particular reference to that section that the small coal operators and members of the miners' union were arguing for a delay.

Now, the government must have held out some hope that that might be done because I noticed in a press statement a few days ago issued by the Minister of Mines in Nova Scotia that he made the statement there may be a delay in any further dieselization on the eastern end of the line. Of course what we have heard here on this subject so far does not indicate there is much hope for that. But the Minister of Mines must have got some assurance from the government that that would be done. But, is there any reason why that should be done apart from the humanitarian reason of avoiding the scrapping of communities? I think there is. And I think there was a very good reason why the dieselization of that line from Montreal down should be delayed. For the last two years there has been an experiment going on from McGill University, the plant I think is at St. Annes, Quebec—an experiment on a coal turbine engine. A few weeks ago the Minister of Mines and Resources, Mr. Prudham, took a delegation down to look at that operation. I met with one or two of the delegates—I think there are some of them here—and they told me they received great encouragement there. They expect that experiment with that coal burning turbine engine to be complete within the next year and at the present time they are using Nova Scotia coal. They are using a good grade of coal, but they think they can get the same results from an inferior type of coal. What the cost of that unit they are building at the present time will be has not yet been determined, but they claim that if this great engine burning coal will do the things they expect it will do they can cut the present cost of oil down to about $\frac{1}{3}$ of what it is at the present time. This experiment will be completed within a year.

Now, if that is so, there is a good reason why the dieselization should be delayed until such time as that experiment is brought to fruition. And the reports at the present time are very encouraging. In the light of that I would ask the president of the company to tell us if he is checking that particular experiment carefully and what he thinks of it.

There is another angle that might relieve that problem which is created for the small operators and that is the importation of American coal. I put the figures on the record the other day. My figures represent what the C.N.R. imported itself. Mr. Gordon referred to figures of what was bought from the U.S. in Canada as well as what was imported. The figures were slightly over 5 million for 1952. If the small coal operators had a market in the C.N.R. of a couple of hundred thousand tons of coal, that is a small percentage of 6 million, and surely the management of the C.N.R. can devise means of relieving the small operators' problem by dropping off a small percentage of the import of coal from the U.S. and give that to the small operators for one year pending the outcome of this turbine experiment in Montreal.

Mr. Gordon made the statement that as far as he was concerned he was going to take the coal which was the cheapest because that would be in the best interests of the C.N.R. I am not quarrelling with that, but Mr. Gordon gave the figure as to the cost of Nova Scotia coal at \$9.30 and U.S. coal at \$4.50, and the American coal has a long rail haul; there is quite a high freight charge for putting that in New Brunswick where American coal is stockpiled. It would run up to about \$13.00 a ton I think. If coal can be produced in Springhill, Nova Scotia and at the Drummond in New Glasgow of which Mr. McCulloch spoke, it is only a few miles of haul from Springhill and New Glasgow to Moncton, but that coal is moved by subvention. I think it is in the best interests of the C.N.R. if they would drop off a couple of hundred thousand tons of American coal. And from the hard facts of what the cost would be I think if your purchasing agent at Moncton would sit down and figure the matter out, he would find out, moving coal from Springhill or New Glasgow to Moncton with the subvention there is, that the C.N.R. would be ahead from the dollar standpoint, by purchasing coal in the areas that I have just mentioned,

because in addition to getting it, I think, a little cheaper than what you would get it for from the United States you would also have the advantage of getting \$2 subvention on each ton of coal that you moved or that would accrue in the movement of that coal. Now, I could take a long time on this, but I am just making this short, abrupt appeal to Mr. Gordon to consider the plight of the small coal operators in Nova Scotia, the wiping out of their communities, and what I consider a simple matter of juggling a few hundred thousand tons of imported coal and guaranteeing in that area the purchasing of that amount of coal until this experiment of oil burning turbines is brought to completion.

Mr. GORDON: Mr. Chairman, Mr. Gillis, I can assure you that the general problem that Mr. Gillis has so eloquently put before us has received the most earnest consideration by the management of the Canadian National, and that we have been fully conscious of all the points which he has raised. As I explained yesterday, it is naturally our policy to utilize diesel power in those locations where the greatest economy will be produced. Now, as in every kind of argument, there are two sides to the story, and I must remind Mr. Gillis that if we were to adopt the general policy of leaving the maritime provinces out of our dieselization plan, or any section of the maritime provinces out of our diesel plan, then we would condemn that section of the maritimes to a subnormal condition in respect of transportation. That has a real meaning in respect of service in this section of the maritimes—industries would not be getting the benefit of the most efficient low cost rapid transit. So there are other interests to consider in that respect. However, I do not want you to think at all that the Canadian National management has taken a completely unsympathetic attitude, particularly toward the small mine operators, and I can assure you that our purchasing agents in giving attention to the purchases of coal have no bias whatever against maritime province coal. On the contrary, they sharpen their pencils and do their best to find a price break in favour of Canadian coal, and they will take acceptable Canadian coal in preference to American coal every time. It is only when the differential—allowing fully for all the factors you have called my attention to—it is only when the price differential reaches the point where that differential becomes unreasonable, that we feel we must, in discharging our duty, buy the competitive coal.

Now, I noted what you had to say about the gas turbine. I can again assure you that we have a very intimate knowledge of progress in respect of the development of gas turbines. We have very definitely kept in touch with experiments not only here in Canada but in the United States and Europe, and we know pretty well where the gas turbine locomotive stands in its present stage of development. I must say to you that, in the considered opinion of our technical officers, it does not constitute a serious threat to diesels at the present time, but with further development we believe it will prove superior in selected classes of service. Now again, in regard to gas turbines, the most encouraging experiments have been by the use of low cost residual oil and it is our opinion that the oil burning gas turbine is likely to be the one which will be first successful. We did not at all rule out, however, that the economic factors may then turn in favour of certain types of coal, and a coal burning gas turbine, and we would welcome that if that were found possible. With all these factors in mind, we are not of the opinion that our present program of dieselization should be changed because it is only a very partial program. We are not committed by any means to complete dieselization of our lines. We are only dealing with a five-year program, taking the raisins out of the cake, so to speak, taking out selected runs where we will get maximum utilization of diesels and producing savings over steam power of such magnitude as to pay for those over a relatively short period of years. On the runs over which we now have diesels operating on through freight, we have established savings in operation that show us a return of anywhere from 30 to 40 per

cent on our investment, so it only takes two or three years to get our capital back with this kind of savings. I do not suggest we expect to get savings of that magnitude with all our dieselization. I am simply saying we are directing our first efforts in dieselization towards the runs where we get the maximum degree of saving, so that we are not worried at all if in the next few years the gas turbine locomotive does prove to be superior to the diesel. Our purchases can be turned over to this type of motive power without losing our investment in diesels. We had that situation in mind.

Mr. GILLIS: The unit is interchangeable?

Mr. GORDON: I am not too sure. My technical officers have convinced me that it will be interchangeable to some degree, and I am assured by some of the manufacturers that it can be made interchangeable. But the dieselization we are doing now is producing such a degree of economy that a few years will take care of the capital cost in those runs, and we do not believe that the gas turbine is going to be a successful operating unit within a time limit of that kind. In the meantime, as I say, our technical officers keep a watchful eye on turbine developments and have followed up tests in the United States in respect to that situation.

Now let me return to the situation which Mr. Gillis mentioned in the maritime provinces. I regret more than I can say that I am being constantly driven into a position of appearing to be unsympathetic to people who have investments in such things as coal mines, and made to appear as though we are unsympathetic toward them and to the miners themselves. Certainly we are not. We recognize the full degree of our moral responsibility, but I do point out to you that temporizing year after year with the problem is not going to solve it. The problem is there and they might just as well face up to it. We have already directed our policy in a cautious way to do it as gradually as possible. We are years behind the dieselization program of the United States, for example, and there has been ample warning to all coal operators that the handwriting was on the wall and they better face up to it. The further point is this, and I repeat what I said yesterday, that when we get down to the economic factors, that the Canadian National is still able and willing to take all the coal which the eastern coal mines can produce, of acceptable quality for locomotive use, for quite a number of years to come, ten years at least, maybe more, provided that their price is competitive; therefore, I suggest to you that all these small coal operators and all the coal miners who work in that industry can do under the circumstances is to face the economic facts of life, which everybody has to do, and ask themselves how they can get their production of coal on such a basis that it will be competitive. Now, that may mean they will have to adjust some of their standards. It may be that they will have to review the situation in respect to a shorter work week or a level of wages if they wish to remain in that industry. The coal operators themselves may have to adjust their sights and may have to go into the situation with respect to treating their coal and take further capital risks in that respect. But I do point out to you that this is simply a matter of facing the economic facts of life. If they can produce coal of an acceptable quality at a competitive price—at a reasonable competitive price and I am not weighing the scales against them at all—our purchasing agents will do everything that honest men can do to give them the break, and if they, the coal operators, can do that—namely produce coal at a competitive price—then we can take the coal and use it for quite a number of years to come.

Mr. POULIOT: Mr. Gordon, will you be kind enough to tell the committee how many steam locomotives you had last year and how many this year.

Mr. GORDON: If you will turn to page 38 of the report, you will see a complete inventory of our railway equipment, and you will see there that the steam locomotives on hand at December 31, 1952 were 1,884 road locomotives,

533 switching locomotives—those are steam locomotives—33 electric; 157 diesel electric, road; 45 diesel electric, road switching; 193 diesel electric switching; for a grand total of locomotive equipment of 2,845 units in service.

Mr. CARTER: I wonder if Mr. Gordon can say a word as to the comparative savings in cost of maintenance as between the turbine and the diesel locomotives.

Mr. GORDON: That is a technical operating matter that I would like the privilege of having Mr. Dingle speak to. You are thinking of the relative maintenance savings cost?

Mr. CARTER: Yes.

Mr. DINGLE: I will put it in a little different way, Mr. Carter, with the information I have available here. Take diesel versus steam power, Campbellton to Gaspé for example, where we have 15 units in operation, 1,200 h.p. road switcher type. On basis of 1952 we effected gross annual savings of \$740,600 as against steam operation.

Mr. CARTER: That is all I wanted. Could you go a step further on this new innovation that Mr. Gillis referred to as to turbines. Is that expected to show a comparative savings in maintenance costs as compared with the diesel?

Mr. DINGLE: Roughly the same, as far as we can tell now.

Mr. GORDON: Perhaps the question as asked can be made clearer if I tell you that in three selective runs over which we now have diesel operation, the gross return on the investment shows us a range of from 28 per cent to 39.9 per cent return on our capital investment. Now the relative thermal efficiency of the diesel as compared with the steam locomotive is, roughly—one of the technical terms in thermal efficiency, which I cannot explain to you—is roughly 8 per cent, and the thermal efficiency of the diesel locomotive is roughly 32, so that it is more than three times more efficient in freight operations.

Mr. CARTER: I understood diesels pay for themselves in maintenance, because of their small maintenance costs.

Mr. GORDON: That is a factor but it is not only smaller maintenance however, it is the greater utilization of the diesel which gives us the savings.

Mr. POULIOT: I notice that you have 17 road steam locomotives less than last year, and 6 switching steam locomotives less than last year which means that there is a difference of 23.

Mr. GORDON: Six less?

The CHAIRMAN: Retired.

Mr. POULIOT: You have 38 before January 1, 1952, and on December 31, 1952 — and when I said this year I meant that. So there are only 23 steam locomotives less this year than last year. Is that right?

Mr. GORDON: There are 23 retired.

Mr. POULIOT: Twenty-three retired?

Mr. GORDON: Twenty-three steam locomotives retired.

Mr. POULIOT: Yes. Now, you have 1,884 steam road locomotives, and 533 switching steam locomotives.

Mr. GORDON: Yes.

Mr. POULIOT: Will you please tell me what is the value of that equipment in the total amount of the assets of the railroad?

Mr. GORDON: Well, while I am getting that information perhaps I should explain that the 23 locomotives retired does not represent the whole story. Those are 23 locomotives which are taken out of service. They are finished. They may be wrecks, or all worn out, but they are finished. But in steam

locomotives on hand as at December 31, 1952, there will be a certain proportion which are spares, not in use, which we do not need completely. So there is a stand-by reserve included in there. I shall give you the figure you asked for in a moment.

Mr. POULIOT: There is a figure on page 22 of \$2,367,000.

Mr. GORDON: The total of the two that you mention, 1884 and 533, makes a total of 2,417 steam locomotives which stand on our books as a capital investment of \$118,939,580 or practically \$119 million.

Mr. POULIOT: It varies considerably. Can you answer that, Mr. Dingle?

Mr. DINGLE: I do not have the total figure before me, but the average tractive effort in February was 47,910 pounds drawbar pull.

Mr. GEORGE: What is the horsepower of the 6,000 series steam locomotive?

Mr. DINGLE: We do not rate them on a horse power basis.

Mr. GEORGE: I was comparing it with the 1600 horse power in the road locomotives.

Mr. DINGLE: A means of comparison would be two 1600 H.P. diesels. They would rate about the same as the northern type freight locomotive which is one of our heavier types.

Mr. THOMAS: How many coal burning locomotives have been converted to oil during the past year, and at the same time could we have a breakdown of the various regions such as the western region and the central region and so on?

Mr. GORDON: I think we have that here. We had a total of 246 locomotives converted at the end of 1952, and we have 99 proposed for 1953.

Mr. THOMAS: That is your total number of conversions?

Mr. GORDON: That is the total number of steam locomotives, coal-burning steam locomotives which have been converted into oil burners, and they are pretty largely in the western region.

Mr. DINGLE: Yes, except for Newfoundland.

Mr. POULIOT: According to what you said a moment ago it is possible to change a coal-burning locomotive into an oil-burning one.

Mr. DINGLE: Yes.

Mr. POULIOT: And it is also possible to change a steam locomotive into a steam turbine locomotive, is it not?

Mr. GORDON: No, that would not be so. If the gas turbine locomotive is found to be a practical possibility it will be a completely different type of animal, so to speak, as compared with the present steam locomotive. It may be, however, that the manufacturers will find a way to make a gas turbine locomotive convertible out of present diesel equipment, but we are not sure of that. However, some of the manufacturers believe that it can be done.

Mr. POULIOT: Your dieselization is not final?

Mr. GORDON: It is not final, no. It is final only in respect to the program which we have embarked upon over the five year period which I announced to this committee last year. We have started that program and when we finish with that part of the program we will have about—what is the per cent again? This will vary, Mr. Pouliot; but when we finish with our 5 year program we will have about 66 per cent of our through freight and about 59 per cent of our total freight ton-mileage diesel hauled.

Mr. POULIOT: That does not mean that you will cease to use steam locomotives in four years?

Mr. GORDON: Oh no, not by any means. You are quite right. We will still have quite a number of steam locomotives.

Mr. POULIOT: But you told us last year that steam locomotives are no longer built.

Mr. GORDON: That is correct. We will not buy any new steam locomotives for the simple reason that none is being built. So that the steam locomotives to which I refer will be the same locomotives which we now own and which will gradually be worn out over the years as we buy new diesels.

Mr. POULIOT: Are there repair parts still being made?

Mr. GORDON: Yes, indeed. A steam locomotive can be kept operating almost indefinitely provided you are willing to put the service units into it.

Mr. POULIOT: Just like an automobile?

Mr. GORDON: Pretty much the same, I suppose. So when we proceed with a diesel program as we are doing, we have to take decisions concurrently to determine how much maintenance and how much renewal to build into steam locomotives. Some of those steam locomotives we will decide deliberately just to run until they are of no more use, then we will retire them.

Mr. POULIOT: In the plans now, and from what you have just said about dieselization, it is that in four years from now you will have about one-third of diesel locomotives in freight as well as in passengers?

Mr. GORDON: I do not know about the passenger percentage. That is rather indefinite. We have not started on passengers yet, and that will depend on just how we co-ordinate it with the other traffic.

Mr. POULIOT: 66 per cent was for freight.

Mr. GORDON: Yes. But you see, this diesel program is not absolutely a fixed program. We are experimenting as we go along and if we find, as we are now finding, that we get major economies out of the use of through freight and switching and so forth, and that these economies offer better results than in passenger trains, we will enlarge the freight part of the program and hold back the passenger program. So we are experimenting as we go along to ensure that we get the maximum return on our investment. We have not any passenger diesels at the moment.

Mr. DINGLE: Just some road switcher type on the Gaspé, P.E.I. and southern counties.

Mr. GORDON: There is none on our long runs.

Mr. POULIOT: Can you tell us what amount of economy have we made in 1952 by using more diesel locomotives?

Mr. GORDON: Well, this is our estimate and I must stress that we are still in the throes of the program, which is an experimental program and we cannot be absolutely definite, but this is as near as we have been able to figure it. We have just covered all the runs here.

Mr. POULIOT: It does not include the figures you are about to give. It does not include the capital expenditures besides that?

Mr. GORDON: No. We figure that our economies by the use of diesels at the moment on a few selected runs total about \$2,685,000 for the year 1952. Is that correct?

Mr. DINGLE: \$2,685,000 is correct.

Mr. POULIOT: Most of those locomotives are new, are they not?

Mr. GORDON: No. Some of them went into service before. They are in certain selected runs, and we have not got here figures covering all the diesels. It is only on the selected runs that I have the figures available at the moment.

Mr. FRASER: The saving is mostly due to the fact that the diesel engine, at the end of the run or when it is stopped at a switch, is not using fuel. Isn't that part of the reason for the saving?

Mr. GORDON: In part, yes, but the diesel can be used in a much more flexible way, and the operating cost of the diesel in respect to fuel consumption is less per ton of freight hauled. But certainly one of the major factors is the reduction in maintenance costs, and that the diesel engines do not have to go into the round house for servicing with the same frequency that the steam locomotives do.

Mr. FRASER: And on long runs for passengers you use steam because of the fact that you have to keep them in operation all the time anyway?

Mr. GORDON: There are two reasons. In the first place, the matter of passenger runs involves the problem of heating. The steam locomotive produces heat for the passengers as a by-product. The diesel does not, and we have to put in special equipment to produce heat for the train. That reduces the economy we obtain.

The other reason is found in the saying that the diesel is a work horse. The bigger the load the better the result we get by using a diesel; whereas the passenger operation is based on speed more than on lift power so to speak.

Mr. FRASER: But still at the present time you are warming the oil and you have added larger water tanks.

Mr. GORDON: For passengers.

Mr. FRASER: No, for freight.

Mr. GORDON: In the maintenance of the diesel we have had to do quite a number of things in the program. We have had to provide diesel shops for regular repair and maintenance, and we have had to provide storage capacity for diesel oil. We have also had to enter into a program of lengthening the passing tracks in order to take advantage of the fact that the diesel can haul 100 cars and the fact that a great number of our passing tracks had only a capacity of 60 to 70 cars. And when we talk about a diesel program we do not only figure the capital cost of the diesel, but we include in it all the additional costs which are necessary for the diesel program including such items as those I have mentioned.

Mr. POULIOT: How much was spent last year for the purchase of diesel locomotives?

Mr. GORDON: It is in the report, I think. No, I am sorry, you have not got it. But if you will turn to page 38 you will see the equipment placed in service during 1952, and the total cost of the diesel electric locomotives shown under the heading there is roughly about \$20,500,000.

Mr. POULIOT: Now I understand that the operating performance is the preamble to the review of operations, and I ask you if you would be able to tell us how much was paid or spent up till now for the repair of the track or the right of way or whatever it is between Edmundston and Riviere du Loup, or if you have not got that figure at the moment, I would appreciate having it tomorrow morning.

Mr. GORDON: I think I can give you the figure. The rehabilitation cost of the Temiscouata line—that I think is the one you are looking for.

Mr. POULIOT: That is right.

Mr. GORDON: In 1952—

Mr. POULIOT: I mean from the start, but I can get it tomorrow morning.

Mr. GORDON: I will have to get that for you. I can give it to you for 1951, and we will get the figure bringing it up to date from the beginning.

Mr. POULIOT: How much was spent last year?

Mr. GORDON: I beg your pardon, I have the figure here. The charge to capital account to date from the beginning of the program is — the total to date is \$423,325.

Mr. POULIOT: That is for all the work on the tracks.

Mr. GORDON: That is up to the end of 1952, and in the capital budget for 1952 an amount was re-voted to the Temiscouata line of \$428,000. Mr. Pouliot, I am sorry, I am not certain about the figures. I will get them for you tomorrow morning.

Mr. McLURE: Now that you have been speaking on dieselization, I would like to ask a question. There is no steam power used at all on Prince Edward Island.

Mr. GORDON: That is right.

Mr. McLURE: And you will be able then to take from that experiment there your exact figures of how much of a saving you are making on the operation of that route. Last year they hauled more freight there than in 1951, but I would like to know if you have the figures as to just what operating saving you have made over and above if you were operating with steam as in 1950.

Mr. GORDON: You want figures showing steam versus diesel based on 1952 traffic?

Mr. McLURE: Yes.

Mr. GORDON: That figure would be an analysis in terms of traffic and I do not have that available now, but I could get it for you. In order to make a fair figure we would have to have it analyzed in terms of traffic levels at a given base year. But I can get it for you by the morning.

Mr. McLURE: Another question. In your opinion is it not very satisfactory?

Mr. GORDON: It is very satisfactory, subject to the fact that we have not been permitted to get the maximum amount of saving we intended to get when we embarked on the program in view of the fact that we have been refused permission to co-ordinate the services with bus operations which we intend to do when we embarked on the whole scheme. One of the factors in going into dieselization was the belief that we could provide a better service with bus co-ordination with certain passenger runs which we then intended to abandon completely but that co-ordination has not been made possible by reason of the refusal of the Prince Edward Island authorities to give us a licence.

Mr. McLURE: I am afraid you will not be able to get it. But, apart from that, I would like to know with reference to the Hillsborough project over the Hillsborough River from Charlottetown to Southport — you have no more connection with Hillsborough bridge.

Mr. GORDON: No, we have not.

Mr. McLURE: Either in ownership or otherwise.

Mr. GORDON: The railway contract has been changed, and I am just trying to determine who owns the bridge. It is certainly not owned by the railway.

Hon. Mr. CHEVRIER: The title is very obscure.

Mr. McLURE: The province has paid for it.

Mr. GORDON: I understand the disposition of the bridge and the purchase thereof are matters for agreement between the Federal and Provincial governments and that is under discussion.

Hon. Mr. CHEVRIER: Yes, I have written a letter to the premier of the province outlining a suggestion — I would have to draw on my memory to recall exactly the arrangements — but by virtue of an early agreement made between the Federal government and the province, the province agreed, I think, to contribute a certain amount towards the maintenance of the bridge,

and since the project is no longer in operation and has been abandoned by order of the Board of Transport Commissioners it was felt that the bridge should be turned over to the provincial authorities, and my letter to the premier of the province indicated that consideration might well be given to the suggestion which I made. The matter is under consideration.

Mr. McLURE: There is no more rental being paid to the Canadian National Railways.

Hon. Mr. CHEVRIER: No.

Mr. GORDON: The bridge was condemned for railway operations.

Mr. McLURE: Was it condemned for heavy trucks.

Mr. GORDON: That I do not know, but I know it was condemned for railway operations.

Mr. McLURE: There is another question.

Mr. GORDON: Incidentally I might add that the condemning of it for truck operations would be a provincial matter whereas the railway matter is a matter for the Board of Transport Commissioners.

Mr. McLURE: That is what I was going to ask you. One more question. When you bring your passengers up from Murray Harbour to Southport, how are you going to transfer them to the station.

Mr. DINGLE: By taxi.

Mr. McLURE: If you are going to transport them by taxi, I think it would be a good thing for you to consider instead of landing them at the station to land them uptown. I know passengers would appreciate that instead of having to pay a taxi to get up town.

Mr. GORDON: I think the question there is whether or not we have the authority to do that. Our obligations are to deliver the passengers at the station and I would be afraid if we tried to deliver them elsewhere we would be running afoul of the bus license and we cannot operate at intermediate points. We have the right to drive into our own stations but not elsewhere. If we get a bus license we will consider your suggestion.

Mr. GILLIS: Before we leave diesels, could you give us an idea of the tonnage purchased by the Canadian National Railways from the small operators in Nova Scotia laid down at Moncton for 1951 and 1952 that will give us an idea of how fast that market is dropping off.

Mr. GORDON: You mean laid down at Moncton?

Mr. GILLIS: Yes.

Mr. GORDON: I would have to get that. What particularly do you have in mind by small operators.

Mr. GILLIS: Like Inter-Colonial.

Mr. GORDON: Would you be satisfied if I gave you a list of the names and then if they were not the operators you wanted, you could let me know.

Mr. GILLIS: All right.

Mr. CARTER: I wonder if I may be permitted to ask one question. On page 19 Mr. Gordon, you say that consideration is being given to a better service for Placentia Bay?

Mr. GORDON: When we get delivery of these two new boats mentioned in paragraph 37 we will re-arrange the service we have of existing boats and provide an improved service to the point you mentioned, but it will not be new boats, but the re-arrangements of the service.

Mr. CARTER: The reason why I asked is because I do not see how it is possible for boats on the present run to be relieved.

Mr. GORDON: The Bar Haven will be placed in the Placentia Bay service, releasing the motor vessel M.V. Burin. That is, the steamship Bar Haven will be placed in the Placentia Bay service releasing the motor vessel now in operation there.

Mr. CARTER: You are getting two new boats on order.

Mr. GORDON: That is right.

Mr. CARTER: Which boats are to be replaced.

Mr. GORDON: One vessel will relieve the S.S. Glencoe and then she will carry on a similar service. Then the other boat is going to replace one of the boats on the other route.

Mr. CARTER: That still leaves nothing for Placentia Bay.

Mr. GORDON: Well it does because when we put a new boat into the service mentioned it releases the existing boat. One of the existing boats is the Bar Haven, and that will go into Placentia Bay.

Mr. CARTER: The Bar Haven is on a separate run.

Mr. GORDON: It will be switched. Here is our position:

The new ferry will release the S.S. Cabot Strait and S.S. Burgeo.

The S.S. Burgeo will go back into the south coast service, relieving the Bar Haven.

The S.S. Cabot Strait will be assigned to the Labrador service, relieving S.S. Kyle.

The S.S. Bar Haven will be placed in Placentia Bay service, releasing M. V. Burin.

One new vessel will relieve the S.S. Glencoe.

One new vessel will relieve the M. V. Codroy and M. V. Clarendville in the Notre Dame Bay and Green Bay services.

The motor vessels Burin, Codroy and Clarendville will then be available for use in freight service from the mainland to Newfoundland or in the Newfoundland coastal service.

Mr. CARTER: The point I want to make there was that the Bar Haven which you intend to put back on the Placentia Bay service was originally on that service and was too big for that port and had to be taken off so it is not suitable to be put back on again.

Mr. GORDON: I am glad to have your comments, and we will look into that suggestion and see what is involved.

Mr. FULTON: Can I ask a question in regard to paragraph 2. Mr. Gordon makes the statement: "freight car utilization was better than in any year since 1945 when wartime carloading regulations were in effect and the longer average haul permitted better mileage per car to be obtained." I did not know before that there was a substantial difference in the carloading regulations. I was wondering, is there any safety consideration there or any considerations of that sort with respect to freight trains which militate against the continuation of such regulations now if they enable you to produce better results.

Mr. GORDON: I think I must answer that in this way. The wartime regulations were regulations which forced the railways in the light of the shortage of equipment to load cars to the minimum level. In other words the car could only move if it had in fact "X" amount of freight. That regulation was removed because it handicapped the speed of moving traffic and so forth, and it was not nearly so flexible as far as railways were concerned.

Mr. FULTON: I think I see the answer now. I thought perhaps wartime carloading regulations might have removed the maximum.

Mr. GORDON: No, it was the other way around. There was a minimum.

Mr. McLURE: I would like to ask one question more with reference to dieselization. I am very strongly in favour of dieselization of our middle system over there, and we had a rather definite promise at that time that no man would lose his employment and they have not all been taken care of and it is rather a discouraging thing for some men who have fairly good positions in the Canadian National Railways and dieselization has taken this away from them.

Mr. GORDON: Definitely it was before my time but I can hardly credit that any assurance was given that there would be no reduction in employment. Certainly that would be contrary to anything that has occurred in my time. We, of course, give the assurance we would look after the existing employees as far as possible and protect their seniority rights and so forth so that the men with the most seniority would be the ones retained, and we would do everything possible to replace these men by training them for diesels or other work. But I am almost certain there could not have been any blanket assurance there would be no alteration of employment. I do not see how management could give such an assurance.

Mr. McLURE: I would not like to say the management did give a really definite promise to that effect, but it was rather held out to them.

Mr. GORDON: There is this to be said. We have made it perfectly clear if we had been able to secure the maximum utilization of our diesel program among other things we would have had jobs for railway employees in running the buses we wanted to run. So it comes back to the buses.

Mr. McLURE: But, there is one question there. The men that are running them today would be still out of employment if you put in some other men. They have a pretty good system of buses, and they would have to be taken care of some other way before you can get a monopoly of that traffic. I had a letter — I do not know how true it is — about three men who have come over from the Maritime Provinces within the last month or so who have taken up positions that we have men qualified to hold and who are out of jobs right there in that territory. Now, I have not got the facts and I am not giving that as a fact, but I had a letter written to me by one of the men.

Mr. GORDON: I can say all these arrangements are strictly in accordance with seniority provisions provided in our wage agreements. Every man is entitled to exercise his seniority rights. If you check the facts we will look into them and give a detailed answer. But at the moment I cannot give you more than a general statement that in these adjustments of employment we are strictly bound by our labour agreements on the question of seniority.

Mr. DINGLE: There may be a question of supervisors, which is in a different category.

Mr. BROWNE: Referring to paragraph 3, Newfoundland District is excluded from the figures above.

Have you any figures of the performance of the railway in Newfoundland such as freight, passengers and comparative figures, 1951-52, and revenue and expenditure?

Mr. GORDON: If you look at page 39 you will find the same figure there including the Newfoundland operation. Under the table freight traffic you will see the same figure given as gross ton miles per freight train hour 29,309 and that compares with the figure I mentioned in the text of the report which excludes Newfoundland and shows 30,002 gross ton miles per freight train hour.

Mr. BROWNE: Can you tell me how much freight and passengers were hauled last year in Newfoundland?

Mr. GORDON: That question has been raised on a number of occasions and we do not keep the accounts so that they will break down in sectional figures.

Mr. BROWNE: I would like to get the comparative statement of the freight hauled in 1951-52 and passenger traffic for the same period, and revenue and expenses of operating over the road.

Mr. GORDON: Would you mind giving to me at the end of the meeting a heading of what you would like to get and with the permission of the chairman I will table it.

The CHAIRMAN: Yes.

Mr. BROWNE: One further question. Is there going to be an oil burner on the north Sydney and Port aux Basque line?

Mr. GORDON: Diesel.

Mr. BROWNE: With regard to the St. John's dockyard, is there going to be any effort made to build it up to a better standard? Last year there were 72 men laid off and it looked as though it was going to be shut down and there were rumours that the dockyard was going to be sold to private interests.

Mr. GORDON: At the present time there are 276 men on the payroll of the dockyard at St. John's. This time last year there were 362 men employed there. The decrease of 86 employees this year is made up of the following labour classifications: 60 common labourers, 12 machinists, 7 boilermakers, 7 carpenters. The decrease in staff is attributed to the fact that last year the dockyard was engaged in conversion of S.S. Northern Ranger to an oil burning vessel. It is also a fact that at this particular period there is less outside work available. In regard to your question of any rehabilitation of the dockyard, we have no such intention at the present time.

Mr. BROWNE: Have you considered the question of selling or leasing to private interests?

Mr. GORDON: We have.

Mr. BROWNE: Is it under consideration at the present time?

Mr. GORDON: It is under discussion at the present time. Whether it will reach a conclusion or not I do not know.

Mr. GEORGE: Mr. Chairman, I asked this question last year. What progress, if any, has been made in shortening the running time of the Ocean Limited from Halifax to Montreal?

Mr. GORDON: That question has been reviewed again and again and it is our opinion that the present running schedule is the most efficient having in mind the intermediate communities that must be served.

Mr. FULTON: I have three questions on page 15. The first is under paragraph 8 where you refer to roller bearings and you say: "Policy with respect of a wider application to freight equipment will depend on the results of analytical studies". Have you got any figures which you can give us which will throw light on the matter as to recent results. Have you found the service is acceptable and traffic increasing?

Mr. GORDON: I cannot give you specific figures, but we have found acceptance among larger shippers and we believe the experiment to be threatened with success, but it is too early yet to get a true picture because of the time lag in getting the figures. The traffic department advised me the other day they have had quite a high degree of interest expressed.

Mr. FULTON: It would be anticipated that will help you in your problem of competition with road traffic.

Mr. GORDON: The real benefit of the service is we get a full load on the motor vehicle trailer. We run that up on the flat car especially designed for the purpose and what we do is we save the handling of that merchandise load

from the truck on to the car and back on the truck. We get a faster and more efficient service as far as the shipper is concerned.

Mr. MACDONNELL: Can you say something about the comparative cost of that operation and the bus that takes it all the way?

Mr. GORDON: Our own figures at the moment are not far enough advanced for me to be precise. It has only been in force for a matter of two or three months. We have not had a long enough period to get precise figures. We have great difficulty in getting the cost figures of our trucking competitors. There is no published record we can go by and when we go to our competitors they are not very free about giving us figures. We are much handicapped. They know pretty well what our costs are, but we do not know theirs.

Mr. MACDONNELL: Would you have difficulty in getting those cars to the proper ramp where you can unload them?

Mr. GORDON: We have had to build special ramps for them. If you were in Montreal I could show you a special ramp where these trailers come in. The tractor pulls the trailer and backs into the ramp and pushes the trailer up the ramp on to the flat car and when it is on the flat car we have especially designed devices whereby the trailer is anchored on the flat car. If you turn to page 20 of the Annual Report you will see a picture. It serves as one more demonstration of why it is necessary to have pictures in an annual report. There is a good example of the actual operation. Here is the trailer. The tractor has backed it up the ramp on to the flat car. Now, the locomotive comes in from this direction and couples up and away it goes. At the other end that car is spotted in position, and the trailer delivered to the actual warehouse of the person receiving the shipment.

Mr. FULTON: Then the next question. I would to ask you a question about the signal track equipment program, paragraph 15, where you outline the program in the west, "for providing automatic block signals on the 512 miles of main line from Jasper to Port Mann, the operating terminal for Vancouver. Installation was well advanced on the 26 miles between Ashcroft and Spence's Bridge and brought to completion in February, 1953, at which time there was a total of 185 miles of automatic signals in service in this mountain territory." I know that will be a matter of great satisfaction to the operating men there. Do you have information as to what is the next stretch of line you are going to work on?

Mr. GORDON: I think I should say this as a general comment of our signalling program, that I am personally very dissatisfied with it, that in the distant past it was done pretty much on a hit or miss basis and we have not yet developed a system-wide program to the extent that I think should be developed. Instructions are now issued, and the operations department and the research department of our company are collaborating on a system-wide study to ensure that we do get a long range program, picking out the most advantageous places to proceed with the signalling operation and to mesh it in with our present system. I would say, as a generalization, that on the C.N.R. system we are below standard in signalling equipment. We are below the standard of the Canadian Pacific, and we are below the standard of Class I railways. That is a matter we have definitely to catch up on and, as I say, I have given instructions to prepare a program to that effect. One of the reasons for slowness has been that over recent years it has been most difficult to get enough equipment. It is highly specialized equipment and has not become available. Another reason in regard to this program is that we are making careful investigation of the qualities of signalling equipment from the United Kingdom. There has been a tendency to concentrate more or less on United States signalling equipment, which is highly satisfactory, but we

want to investigate the possibility of the British made equipment to make sure that we are giving them an equal opportunity in this market. But that, again, raises a lot of technical problems because of the interchangeability of parts of the signalling system, and if we were to go into British types of signalling equipment, I think we would have to take selected areas and standardize on that. It all calls for a very careful technical study and, as I said, that is in hand and I will have a more complete explanation for you next year.

Mr. FULTON: I remember we had an annual discussion on this and at one time I was very interested in your experiments on the slide detector fences in the mountains, and I think you indicated pretty clearly that you decided, as a result of your tests, that that was not the answer and that you were going to try to provide the answer to safety requirements in the mountain territory by the installation of an automatic block signal system throughout that territory, and I understood that your program, at least with respect to the mountain territory, roughly, from Jasper to Port Mann, referred to here, that you were working eventually towards the installation of a block signal system in the whole of that territory. Is that correct?

Mr. DINGLE: I can give those figures, Mr. Gordon.

Mr. FULTON: Just so I am getting the answer to this on the record—last year, I think it was, as a result of the discussion, although, as you told us now, your whole program for the country is under review, you had pretty well decided in favour of the installation of a block signal system throughout the mountain territories, roughly, from Jasper to Port Mann. That program is not going to be disturbed now?

Mr. GORDON: No, the program laid out for the Rocky Mountains, and which is scheduled now, is as follows: In 1952, from Ashcroft to Spence's Bridge, a distance of 25.0 miles, an estimated cost of \$220,000; in 1953, Kamloops Junction to Ashcroft, a distance of 48.9 miles, at an estimated cost of \$440,000; in 1954, Jackman to Blue River, a distance of 65.8 miles, at an estimated cost of \$608,000; in 1955, Blue River to Birch Island, a distance of 61.6 miles, at an estimated cost of \$585,000; in 1956, Birch Island to Kamloops Junction, a distance of 77.8 miles, at an estimated cost of \$760,000; in 1957, Hope to Port Mann, a distance of 74.4 miles, at an estimated cost of \$750,000—for a total program of 353.5 miles at a gross estimated cost of \$3,363,000. That is the program which is now in hand, and I would say to you that when we have done this short job that program may be amended, but if it is amended it will be enlarged and not reduced.

Mr. FULTON: From what you have said, it is apparent that it is a very expensive program.

Mr. GORDON: It is indeed.

Mr. FULTON: Do I take it you are still dissatisfied with the slide detector fences? Is not the answer to that subject to modifications as a result of the investigations referred to in connection with slide detector fences, and that the automatic block signal system does give the best answer to the requirements of safety in mountain territory?

Mr. GORDON: That is our opinion, but Mr. Dingle better speak to it; it is a technical matter.

Mr. DINGLE: It is our experience, Mr. Fulton, that these fences are not the answer to our problem. As an example of our difficulties with this type of protection I would like to give you certain figures. In 1951: No. of times signal at stop, 145; No. of times rock on track, 5; No. of days fence out of service, 92. That is on an experimental section of fencing located between mileage 93.7 and 94.0 on the Ashcroft subdivision.

Mr. FULTON: Is that slide detector fence?

Mr. DINGLE: Yes. Now, in 1952 on the same section: No. of times signal at stop, 35; No. of times rock on track, 3; No. of days fence out of service, 136. A short section of 200 feet was installed at mileage 55.6 of the Albreda Subdivision, and here are the operating results for 1952 in connection with that: No. of times signal at stop, 3; No. of times rock on track, 3; No. of days fence out of service, nil.

Another short section of 200 feet was installed at mileage 7.3 on the Yale Subdivision, and here are the 1952 results: No. of times signal at stop, 15; No. of times rock on track, 3; and the No. of days fence out of service, 3.

Our main difficulty is in the maintenance of the fence. Quite often fence is thrown by rocks coming down, but they land in ditch rather than on the track, thus giving a false signal. Therefore, while there is no blockage of the track, the enginemen get a false signal, and this creates, in time carelessness or uncertainty on part of men in that they do not know when there is a true or false signal.

Mr. GORDON: In regard to that, Mr. Fulton, it is just like the old story of crying "wolf". When the rocks come down that are not big enough to have any effect on the passage of trains, or bounce over the track and into the ditches, nevertheless they set off signal and the train engineers come to a stop, get out and find that there is no blockage, and the next time that signal goes on they may think it is only another of those things. We think it better not to depend on them and to concentrate our money expenditure on the larger program of the automatic block signals.

Mr. FULTON: Do you remember that the Board of Transport Commissioners delivered itself of an opinion on this matter as a result of a survey made on one occasion? Have you since submitted your program to them, and are they satisfied with the program which you have outlined?

Mr. GORDON: Our program?

Mr. FULTON: I mean the program of the installation in connection with the block signal system.

Mr. GORDON: Will you answer the question, Mr. Dingle. I am not familiar with it.

Mr. DINGLE: My answer to your question, Mr. Fulton, would be yes. The program has been approved, and as each section is completed, the installation is passed by the Board of Transport Commissioners. You will understand that this program takes in the whole mileage on the main line between Jasper and Port Mann.

Mr. FULTON: Have they expressed any opinion as to the speed with which you are carrying out the program?

Mr. DINGLE: They have made no particular comment.

Mr. FULTON: If they were not satisfied with it, they would say no?

Mr. DINGLE: I would expect that to be the case.

Mr. CHURCHILL: Can you tell us what prejudices the use of radio communication with respect to trains? Has it been tried and rejected?

Mr. GORDON: I have a statement on that here. Perhaps you had better deal with it, Mr. Dingle.

Mr. Dingle:

Test at Longue Pointe—Montreal

A test of radio in yard service was carried out in Longue Pointe yard from the fall of 1945 to the spring of 1947—a period of some fifteen months. This test was carried out primarily to determine whether radio

was technically feasible, what problems might be met with in the installation and whether this type of communication was of material benefit in yard operation.

Longue Pointe yard consisted at that time of 11.56 miles of main line and 62.02 miles of sidings, making a total of 73.58 miles.

During this test it was clearly demonstrated that by the use of radio communication many moves could be speeded up, time could be saved in many cases and better service could be rendered to the industries in the area. Customer goodwill was increased and the yard crews themselves found many advantages which helped them in their own moves.

A controlled test was conducted by the Department of Research and Development during the latter part of 1946, and as a result of their investigation it appeared that a sufficient return on the investment was not apparent to justify the installation. Accordingly, early in 1947, the radio equipment was entirely removed and returned to the manufacturers, Canadian Marconi Company, who furnished all equipment and maintenance during the entire test. The railway installed the equipment and maintained the generators, batteries and other auxiliaries.

Present Plans

Plans are now under way for a full-scale test of the use of radio in Turcot yard in conjunction with one of the manufacturers of this equipment, and it is expected that conclusive results will be reached by the fall of 1953. If considered warranted, tests may be made later in the year on head-end to rear-end communication on main line freight trains.

A limited application of radio whereby it will be used to facilitate the checking of cars at Turcot yard is expected to be made this year.

General

There is very great doubt whether radio in its present stage of development would give results sufficiently reliable and consistent to warrant its use in mountain territory. This is confirmed by the National Research Council and by various manufacturers of radio equipment. It is still felt that the established practice of using written orders is safer.

Mr. GORDON: As you see, it is still in the experimental stage, and we are making experiments to establish in one way or another the particular places where its installation would be beneficial.

Mr. CHURCHILL: I was thinking more of the general running of trains than of its use in marshalling yards. It is in the general running of trains where you run into trouble.

Mr. GORDON: It has not advanced to the point yet where reliability in operation would enable us really to change over. But as you say, we are watching that very closely. There are certain points in Canada that we know right now are unsafe, particularly in the mountain areas.

Another factor which is raised is that we have not sorted out yet just where we stand in respect to labour implications in using the device. I might say that in the United States it came out that the installation of a radiotelephone raised the question of an extra day's pay for the engineer for answering the phone.

Mr. MACDONNELL: You spoke of purchases in Britain. Have you had delivery conditions that satisfied you?

Mr. GORDON: We have had difficulty with deliveries. Some cases were all right but we have had some very extraordinary difficulties in particular cases. I might say, although I am sorry to have to do so, that my experience has been disheartening. We have talked to our British friends again and again about it. In some cases deliveries are excellent, but the percentage of difficulties we have are rather, as I say, disheartening.

The CHAIRMAN: Carried. Shall we now turn to "Other Research"?

Mr. FRASER: May I ask a couple of questions? On page 15 in regard to these six new lightweight electric cars. Are they used for commuting service?

Mr. GORDON: Are you talking about item 12?

Mr. FRASER: Yes.

Mr. GORDON: We only operate them through the Mount Royal tunnel.

Mr. FRASER: I noticed that, but are they used for commuting?

Mr. GORDON: It is a streetcar service really; it is an electric car running on the railway through the tunnel. But it is to all intents and purposes a streetcar service.

Mr. FRASER: In item 10 you say:

In addition, wherever practicable, specifications call for single instead of double vestibule cars, . . .

Mr. GORDON: Yes.

Mr. FRASER: In connection with those cars, what do you do for safety? The vestibule at the end of the car has a certain amount of safety element.

Mr. GORDON: This is a design of car which has been brought out by the manufacturers and has been used quite successfully in the United States. It is a more or less new idea in Canada, but the safety factors have been examined by the Board of Transport Commissioners and we have their approval.

Mr. FRASER: What do you do with your washroom? Do you put them at the end?

Mr. GORDON: We use the extra space for seating, as I mentioned in the report.

Mr. FRASER: I noticed that, but I thought that was in the car itself?

Mr. GORDON: There is one instead of two vestibules for the passengers, but we have examined it and found that it does not cause much trouble.

The CHAIRMAN: Pages 14 and 15?

Carried.

We now have "Other Research", on page 18?

Carried.

"Condition of the Property"?

Carried.

"Terminal Facilities"?

Carried.

Mr. McLURE: Under "Conditions of Property", item No. 26, you have placed a lot of orders for cars, and about half of them have been placed in the United States.

Mr. GORDON: Roughly speaking, that is about right for new passenger equipment. I will tell you what we did with our passenger equipment. We called for competitive tenders from Canadian manufacturers and from United States manufacturers. On the basis of bids received we found that we could get much better prices from the United States manufacturers in regard to the more complicated type of equipment, dining cars, and specialized cars of that type.

But in regard to the ordinary straight line coaches, they were practically all placed with Canadian manufacturers which put them in a preferred position to get a straight production run, which gave them the best part of the order in that respect.

You must remember that there have been no passenger cars built in Canada by Canadian manufacturers for a number of years; and it was much better economy for them to get the coach end of the order. They have expressed their complete satisfaction with our division of the business on that basis.

Mr. GEORGE: What are they doing in the Moncton shops? Are they repairing rolling stock there, or do you intend to build a certain type of rolling stock?

Mr. GORDON: We only convert certain types and carry on repairs. We have no place where we build completely all our own rolling stock.

Mr. GEORGE: Has that been considered?

Mr. GORDON: As a matter of fact in connection with the very matter which Mr. McLure spoke about, when we decided that we had to pick up a time lag in respect to our passenger equipment and realized that we had a very large order of passenger equipment ahead of us which would run into \$50 to \$60 million, we gave careful consideration to the wisdom of extending our own shops in order to build that equipment. But we came to the conclusion that the wise policy was to use the facilities of existing manufacturers and not to become dependent entirely upon our own facilities because if we did not place that order, it would have meant that there were no passenger car builders left in Canada.

That policy I understand is not the same policy that is followed by the Canadian Pacific Railway. Nevertheless it is our considered opinion that we are better advised to have Canadian manufacturers who are able to build passenger cars.

Mr. FRASER: In regard to item 27, on the road between here and Toronto, have you welded much of that line?

Mr. DINGLE: Yes. We have welded and built up the joints.

Mr. GORDON: That is a continuing program.

Mr. FRASER: When do you expect to get it finished between here and Toronto?

Mr. DINGLE: Well, we are continually changing the rail.

Mr. FRASER: I know you are.

Mr. DINGLE: It is a continuing program. I could not tell you when it will be finished.

The CHAIRMAN: Carried.

Mr. FRASER: I take it they are at it all the time, levelling it off and welding it?

Mr. DINGLE: Yes.

Mr. THOMAS: According to an answer given to a question there are 425 units—passenger car units—to be built in Canada at the cost of \$32,700,000. I wonder if we can get a breakdown of the different types of cars.

The CHAIRMAN: Would you be content to have that in the morning?

Mr. GORDON: I want to make this reservation. I do not think we should be asked to give the car unit prices.

Mr. THOMAS: No, the types of cars.

Mr. GORDON: We will get that in the morning.

The CHAIRMAN: Terminal facilities carried?

Carried.

The CHAIRMAN: Coastal steamship services carried?
Carried.

The CHAIRMAN: Participation in economic development.

Mr. GILLIS: Just a minute. Mr. Gordon I notice you give a comprehensive survey of your participation in the economic development. There is one you missed. What is your program for the Canso bridge?

Mr. GORDON: The Canso crossing?

Mr. GILLIS: That is right.

Mr. GORDON: I cannot understand what you mean by program. We are well up in the planning for taking care of the project, and we will be working to synchronize with the building of the crossing. We will be ready to give a service just as fast as the causeway is built. Part of the survey is completed and most of the physical work as far as it can be wisely proceeded with at this time is up to date.

Mr. GILLIS: I wish you had included it in the report.

Mr. GORDON: I thought I had.

Mr. GILLIS: It is a big economic development.

Mr. GORDON: We mentioned it last year, but we did not put it in this year because we thought the report was long enough.

The CHAIRMAN: New branch lines.

Mr. BROWNE: How much do you estimate it will cost for the Lynn Lake line.

Mr. GORDON: The estimated cost is shown in the Act as \$14,725,000 plus 15 per cent. We have not the final figures at the present time, but it will cost us something over \$17 million.

Mr. MACDONNELL: 15 per cent?

Mr. GORDON: That was the margin given in the final authorization of the Act.

Mr. BROWNE: Terrace to Kitimat.

Mr. GORDON: The total estimated cost is about \$11½ to \$12 million.

Mr. BROWNE: It is much cheaper, is it?

Mr. GORDON: It is cheaper per mile, yes. No, I am sorry, it is more expensive, but the distance is shorter.

Mr. BROWNE: It is much dearer. \$200,000 a mile.

Mr. GORDON: That is right. 46 miles in this and Lynn Lake is 155.

Mr. BROWNE: It is more rugged territory.

Mr. GORDON: Yes, and there is a very difficult crossing over the Skeena River.

Mr. MACDONNELL: You spoke about a 15 per cent cushion in connection with Lynn Lake. Does that mean there has been a 15 per cent increase in the cost since that time?

Mr. GORDON: No, it was only that we found it very difficult to make a practical estimate of the cost of the line because of the unknown qualities in the territories through which we went, so in estimating the cost we took a guess at it. As it turned out the total estimated cost comes close to \$17 million.

Hon. Mr. CHEVRIER: There is provision in the Act which includes a cushion of 15 per cent and it allows the Canadian National Railway to go beyond the amount approved by 15 per cent.

The CHAIRMAN: The St. Lawrence seaway project carried?
Carried.

The CHAIRMAN: Highway competition.

Mr. McLURE: What do you mean by highway competition.

The CHAIRMAN: Carried?

Mr. MACDONNELL: Mr. Chairman maybe there are some things that one does not discuss but highway competition seems so important. Is it your judgment we should not discuss it? I have not a particular question but I wonder if Mr. Gordon would make a few general observations. He has already made some about the difficulties of highway competition which takes the more lucrative kinds of freight, and even if there is nothing to say it seems to me to be one of the great problems facing the railways.

The CHAIRMAN: The new type of flatcar shows they are quite wide awake to truck competition.

Mr. GORDON: There is no doubt about the importance of the question of highway competition and its difficulties in relation to railway business. It is a major subject and we could write a treatise on it. It is a fact that truck competition is breaking down the historic pattern of railway rates and we have been forced to lower rates ourselves.

We have been forced to lower our rates on high value commodities with the inevitable result that the rates on low value commodities must be raised if we are going to survive. I do not suggest it would be economically wise to restrict the operation of trucks but there should be a general appreciation of the ultimate impact of truck competition on the general economy of this country. But, our position has always been that we do not fear truck competition so long as it is subjected to the same type of controls as we are and have to meet the same kind of conditions. The effect of competition is a very big question and something that I am quite sure will be open for discussion before the Board of Transport Commissioners in the equalization of rates.

The CHAIRMAN: Employee relations.

Mr. FULTON: Mr. Chairman, I would like to ask a question here. The opening paragraph, number 15, is a masterpiece of understatement.

Mr. GORDON: I thought you would have noticed that before in me.

Mr. FULTON: Sometimes when you are not being pressed.

In connection with paragraph 16 may I ask whether you had any labour representatives on this survey that you say you made?

Mr. GORDON: Not labour representatives, but we intend in due course if we get on with this to ask for and try to encourage discussions on both sides. I jotted down one or two notes in thinking of what I referred to as "a condition of recurring crises". What we are trying to do here is to have a long and hard look at the situation as it has developed over the years to make perfectly certain we have nothing on our conscience to see if the position has not changed; to see if we can foster a feeling of mutual trust in the other man's motives and develop what may be called a code of ethics and fair play in day to day relations. I think both sides might very well sit down and try to find common ground as to what might be called criteria for wage agreements—what I might call "Queensbury rules"—which would be a framework for negotiations, rather than leave it always to the crisis period to enter into these discussions. It may be that a dispassionate survey might show management may need some orientation to recognize that unions are both necessary and desirable as an inter communication link between employer and employee, and it may be labour leaders should take stock of their position. By and large what I am trying to say is that with the lessons of the last two or three years, which have been years of acute difficulty with wage matters, that we take stock of our position and try to arrive at a situation where we can work out a means with labour leaders of discussing our problems and arriving at what might be called criteria that will help at a time of wage adjustment

to avoid getting into an impasse. It is an ambitious program. Whether I can get anywhere with it I do not know. But it will not be for lack of trying and I have an idea our more enlightened labour leaders are in the frame of mind that they would welcome an opportunity to sit down with management and have discussions of that kind.

Mr. FULTON: I wanted to ask one other question on page 19.

The CHAIRMAN: Shall we adjourn until tomorrow morning?

Mr. MACDONNELL: I thought Wednesday morning was sacrosanct.

Hon. Mr. CHEVRIER: It is on votes and proceedings.

The CHAIRMAN: The T.C.A. has expressed a very firm wish that we should take them on on Thursday. Now, I think we can do so. If we sit tomorrow morning and afternoon, and without sitting tomorrow night, we can clear up the C.N. report and the budget items, and then have the T.C.A. with us on Thursday!

Hon. Mr. CHEVRIER: Could we not complete the report tonight?

The CHAIRMAN: We are on the last paragraph of the report. If members think it won't rush you too much we could meet and finish tomorrow afternoon?

Mr. MACDONNELL: I do not know anyone who would agree with me, but I would rather sit tonight than an hour tomorrow morning.

Mr. FRASER: That is the way I look at it, Mr. Chairman.

The CHAIRMAN: What about you, Mr. Gordon?

Mr. GORDON: I can take it.

The CHAIRMAN: Then we will meet at 8.30 tonight.

Mr. FULTON: There is one short question, Mr. Chairman. Mr. Gordon, it is a serious matter, and in fairness, so that nobody will misunderstand you, I thought there might be one phrase which might be misinterpreted, and that was when you referred to management's attitude and thinking on the subject. I wonder if you would like to make it clear that your remarks were confined or based exclusively on your own field, because otherwise I think somebody might take it that Mr. Gordon is taking a knock at management generally.

Mr. GORDON: Thank you very much. My intention was only to refer to the attitude of the Canadian National Railways management towards this question.

Mr. FULTON: I thought so. In paragraph 19 you refer to the difficulties you are having in obtaining experienced staff with a broad background of experience eligible for promotion to senior positions. What I am going to ask you, have you any reason to believe that you should perhaps take another look at your own hard and fast retirement age? I understand in your company, as in many others, and I am not singling you out, that there is a hard and fast ruling of retirement at 65?

Mr. GORDON: That is right.

Mr. FULTON: Is there anything there which makes you think you should perhaps take a look at it again?

Mr. GORDON: We have certainly thought about it. It is a very difficult problem and it sets up ripples in unexpected quarters. My general understanding is that labour feels that the retirement age should be strictly imposed because obviously, from their point of view—I do not speak critically in this respect—they feel that if we extend the service of people after the age of 65, it does not give the younger men the kind of opportunity to reach the top that they would otherwise have.

The problem of the retiring age is one of the largest economic problems on our North American continent. It is one which affects very materially the cost of pension funds and it is one which must be approached very

cautiously from that point of view. I do believe myself, and I am expressing this view personally that there are some cases where perhaps we ought to be more lenient in respect to the retiring age. But it would require an amendment to the pension fund rules, and it would have to be considered in the light of a great many points of view. A man at 40 has a very different point of view about retiring age from a man at 65 or even 64. Moreover, there is a staff morale question involved in it, and also there is the physical problem. It is unfortunate that there has to be a hard and fast rule in that respect. Many men at age 65 are very young and have young ideas. On the other hand, there are men at age 65 who are very old and are all through.

The CHAIRMAN: Shall the report carry?

Carried.

We shall adjourn now until 8.30 o'clock.

EVENING SESSION

The committee resumed at 8:30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. As you know, the House is adjourned. I do not think it would be in disrespect for us to carry on with our work, since we are not so formal as the House of Commons, but I would like an expression of opinion from the committee—if there is any objection.

Mr. McCULLOCH: I think we should have one minute's silence.

The CHAIRMAN: One minute's silence, gentlemen.

Agreed.

(At this point the committee stood in reverent silence for one minute in respect to the late Queen Mary.)

Mr. MACDONNELL: On a question of privilege. I hope this is the last request I shall have to make. I wish to read a telegram to the committee which I have received, and which is signed by J. E. Woods, who is president of the Monarch Life Insurance Company in Winnipeg, and chairman of the Canadian Committee, I think you call it, of the Hudson's Bay Company. The telegram is addressed to myself:

Winnipeg, Manitoba,
March 24, 5.36 p.m., 1953.

J. M. Macdonnell M.P.
House of Commons Ottawa Ont.

Pitt authorized me on Sunday the twenty second to send correspondence to you for use before parliamentary committee stop After having talked to President Gordon today Pitt now states that he did not authorize correspondence to be read to committee but wanted you to have same so as to disclose all the facts.

J. E. Woods

The CHAIRMAN: Thank you, Mr. Macdonnell.

Mr. FULTON: This, Mr. Chairman, of course raises a very serious question of privilege which I regret I think I have to bring before the committee, and it is this. Ever since last night, and certainly since this morning, the opening of our proceedings this morning, the committee had before it—I think a final

decision was taken on it—a motion to call Mr. Pitt as a witness. In other words, all during the time of that discussion this committee was considering whether or not it would call Mr. Pitt to appear before it, and to answer any questions that he might be called upon to answer. Mr. Macdonnell has indicated pretty clearly the accuracy of his statements and the foundation upon which they were made in such a way that his position is no longer open to question, but I want to point out to you on the question of privilege, which affects the rights not only of every member of this committee but of the committee itself, the fact that during the time when we had before us and under consideration a motion that Mr. Pitt should be called as a witness, another witness before this committee, the president of the Canadian National Railways, was twice in communication with Mr. Pitt and discussing with him the propriety, or otherwise, of his appearing before us as a witness.

Mr. BENIDICKSON: Do you think that is improper?

Hon. Mr. CHEVRIER: Why shouldn't he?

Mr. GORDON: That is not true. I never at any time discussed with Mr. Pitt the propriety of his appearing as a witness. I asked him two questions only, and he answered them.

Mr. FULTON: I must ask you to maintain order in this committee, Mr. Chairman. I am raising this as a very serious question of privilege.

Hon. Mr. CHEVRIER: You are raising it as a political question.

The CHAIRMAN: I do not consider that you have indicated any question of privilege. I think that Mr. Macdonnell definitely was quite proper in his question of privilege but I fail to see any question of privilege at all in the remarks you have made, Mr. Fulton.

Mr. FULTON: May I outline my question of privilege to you. It is this: I do not know how I could state it more clearly. This committee itself was considering whether or not it would call Mr. Pitt as a witness. Now, sir, if you as chairman of this committee had seen fit to communicate with Mr. Pitt, I would have had no objection of course. But I would point out to you that with your consent—because you permitted Mr. Gordon to make a statement, yes, two statements which he did make,—at no time did you take any objection, so it was with your consent that Mr. Gordon communicated to the committee the substance of a telephone conversation which he had had with Mr. Pitt, which conversation, as reported by Mr. Gordon, indicated in the view of Mr. Gordon at any rate a view which was acceptable to some of the members of the committee, that Mr. Pitt should not be called, and that it would be improper and unwise to call Mr. Pitt.

Hon. Mr. CHEVRIER: I rise to a point of order.

Mr. FULTON: I do not think you can rise to a point of order in a question of privilege.

Hon. Mr. CHEVRIER: This is entirely out of order. Have I the floor?

Mr. FULTON: The minister is not entitled to raise a point of order in the course of a question of privilege.

The CHAIRMAN: I have already indicated that I have not heard anything from your lips, Mr. Fulton, from the time you got up until the present moment which I consider to be a question of privilege. I so indicated it when I allowed you to continue. I hope that you will state your question of privilege briefly. But you have not done so. I have no option, if you continue this way, but to rule that you are entirely out of order. If you think you have a question of privilege, would you please be good enough to state it.

Mr. FULTON: I certainly thought that I had indicated that the matter was one of substance and of privilege, an important question of privilege. But perhaps I can state it in language which will make it more obvious.

Mr. BENIDICKSON: The privilege is what you are getting from the committee.

Mr. FULTON: I will state it in a form which I think will bring it clearly before the committee. I think the point goes to the question of the right of a member who claims the introduction of certain evidence in justification of what he said.

The CHAIRMAN: No, no.

Mr. FULTON: That is a question of privilege.

The CHAIRMAN: Just a minute, please. I have been a member of this House for some 18 years and I have heard many questions of personal privilege raised in the House. They are usually directed to two points, one, a member has been misquoted in the press or something of that nature; and the member wishes to put himself right with the public in that regard. The other is that some member feels that one of his privileges as a Member of the House has been encroached upon. I have not heard out of your lips tonight a question of privilege. If you have one, please state it, but state it briefly.

Mr. FULTON: That was not your opinion when you said you had not heard a word of privilege. My question of privilege is very definite. It is that my rights as a member of this committee have been encroached upon by the conduct, or by the course of action taken this afternoon with your consent as chairman. I am bringing it up at this time because Mr. Macdonnell, another member of the committee, has placed before the committee information indicating clearly—

The CHAIRMAN: But that is his privilege, not yours.

Mr. FULTON: No, because the result of the course of action followed this afternoon has been that I, a member of the committee, was influenced in my decision as to whether or not this witness should be called, by the statement of another witness reporting a conversation with the witness. But at that time we were considering whether or not we should call a witness. That is my question of privilege.

Mr. MUTCH: How silly can you get?

Mr. FULTON: I can not get quite as silly as my hon. friend who has just interrupted. My question of privilege is this. The committee was placed in such a position this afternoon, and I, as a member of the committee was placed in such a position at the very time when I, with my colleagues, was considering the question of whether or not we should call Mr. Pitt. I was informed by another witness who had been in communication with the witness, the propriety of whose calling this committee was then considering. Therefore, was influenced by a statement coming from the witness, Mr. Gordon, which statement at that time there was no opportunity of controverting. The statement of Mr. Gordon, or the implications of that statement have certainly been controverted by the statement just made by Mr. Macdonnell.

The CHAIRMAN: I do not think so.

Mr. FULTON: I repeat that the implications on which in part this committee based its judgment have been controverted by the statement made by Mr. Macdonnell. I summarize my question of privilege by saying that it is entirely improper for this committee to be bound by that decision this afternoon and entirely improper for this committee to allow its proceedings to be run by a statement made by another witness with respect to the propriety of calling a witness who alone is able to give us the facts.

Hon. Mr. CHEVRIER: Mr. Chairman, if I may be allowed, I am glad that this telegram has been put on the record.

Mr. GEORGE: I wonder if the minister would read that telegram.

Hon. Mr. CHEVRIER: Yes, I will do so in a moment. Now I commend my friend Mr. Macdonnell. It confirms the judgment I have of him. It is a high opinion and I am very happy that he has seen fit to put this telegram on the record. I was trying for at least two sessions to find out from him the name of his informant. Well, now we know who it is and perhaps I can read the telegram which already has been read by Mr. Macdonnell. It is addressed to him and it says this:

Winnipeg, Manitoba
March 24, 1953, 5.36 p.m.

J. M. Macdonnell, M.P.
House of Commons, Ottawa, Ont.

Pitt authorized me on Sunday the twenty second to send correspondence to you for use before parliamentary committee stop. After having talked to President Gordon today Pitt now states that he did not authorize correspondence to be read to committee but wanted you to have same so as to disclose all the facts.

J. E. Woods

That telegram confirms every word that Mr. Gordon has said here and the only point at issue is that Mr. Fulton is decidedly displeased and angry at the manner in which this thing has turned out. In other words, he is displeased at the attitude of his own colleagues. There is no doubt about that in my mind.

MR. FULTON: Not in the slightest.

Hon. Mr. CHEVRIER: Because he is bringing it back and going over the whole thing when it has already been thrashed out. If there was a question of privilege to be raised, it seems to me that the time to raise it was when my friend stated that the witness did something which was unparliamentary. I say here with all deference to my friend that surely the president of the Canadian National Railways has the right to communicate with his employees, and has the right to communicate with the members of his staff as he did, to inquire what the position was, and he has. And the telegram which was read simply confirms that. I do not see that there is any question of privilege at all.

MR. MACDONNELL: It does seem to me that it is fair, as Mr. Fulton has said, that what has happened really means that one of the witnesses here, namely Mr. Gordon, to a very considerable extent has been leading this committee around by the nose today, and I am satisfied that it is perfectly clear from this telegram which I read that the talk which Mr. Gordon had with Mr. Pitt did, as I suggested earlier in the day, have a very considerable effect on his mind. And I do think that Mr. Fulton is warranted in saying that if that is the situation, knowing that this committee is deliberating whether a certain man should be brought here to give evidence—may I say a force majeure—Mr. Gordon will not think I am using it in any derogatory sense—however, at any rate a very strong force was brought to bear on him at a time that this committee was going to consider whether they should bring him or not, and of course that fact, as Mr. Gordon reported to us this afternoon, very naturally had a very considerable affect on the attitude of the committee. So for that reason it seems to me that Mr. Fulton was fully justified in taking the position that he did take.

MR. DICKSON: Who is trying to lead Mr. Woods around by the nose?

The CHAIRMAN: Mr. Fulton has indicated to the committee that the witness, Mr. Donald Gordon, did influence his vote this afternoon.

Mr. FULTON: No, I did not.

The CHAIRMAN: I heard you say that. It is very difficult for me to believe such a statement. Mr. Fulton voted in favour of the motion.

Mr. FULTON: I said it influenced the committee in its decision.

The CHAIRMAN: Well, the record will speak and I suggest that you read the record. I certainly heard you say it influenced your vote. You voted in favour of the motion.

Mr. FULTON: I intended to say that it influenced the vote of the committee.

The CHAIRMAN: And that it did not influence your vote? So there is no question of privilege involved so far as Mr. Fulton is concerned.

Mr. McCULLOCH: Let us carry on.

Mr. POULIOT: Well said!

The CHAIRMAN: "Income and Capital Budget, 193".

Mr. McLURE: Have we finished "Employee Relations"? There is one question I have on No. 18. This is on page 24.

The CHAIRMAN: The report was carried. Will you ask your question on the budget? You will have an opportunity to ask it on the budget.

Mr. McLURE: It is only a short question and I would like to mention it. We are in the unfortunate position that we lost all our railway shop employees. There was consideration given as to whether we could get apprentices to learn the trade in Moncton and there was a quoto adopted of 4 per annum. Then that was disrupted on account of war conditions, but we got two last year—no three years ago—and they have been very very successful and I would like to know if the president can look into this matter to see if we can get an opportunity—the island division of the railway can get an opportunity—to train a few apprentices.

The CHAIRMAN: I believe Mr. Gordon understands the question and he will give the answer later.

Mr. GORDON: If I understand your question it has to do with the rate at which apprentices are trained. Now I want to tell you in a general way that a matter of that kind again is covered by the labour wage agreement. The management has no discretion in regard to the rate at which apprentices are allowed because this matter has been worked out as part of an agreement with the individual trades. You will correct me if I am wrong Mr. Dingle.

In other words we have not got discretion to either decrease or increase the number of apprentices under the circumstances you mention. We have agreements worked out as part of our labour negotiations and all these matters, as I say, have been built up over the years by representation from union members and agreed to by management, and they form part of our working agreement now, and we have no discretion except to carry out the agreement entered into.

The CHAIRMAN: Now, if you will turn to the budget.

Mr. MACDONNELL: Just one second. This is employee relation. Mr. Gordon you have spoken about cooperation with labour and I want to ask this question. Labour has now very skilled economists working in its own right and the question I want to ask is whether in your study and appreciation of economic conditions and of the position of the whole railway industry it is part of your co-operation with labour to have these labour economists discuss and assess from their point of view and from the point of view of the whole industry the position of the industry and what are the opportunities and dangers that confront it.

Mr. GORDON: Are you referring Mr. Macdonnell to labour economists employed by union organizations?

Mr. MACDONNELL: I understand there are very skilled economists employed.

Mr. GORDON: I must say this that our meeting with such labour economists so far has only been at the time when some dispute has been taken before the board of conciliation, and the labour economist at that time is usually called by the union as an expert witness to provide or support statistics or facts and figures which may be part of the brief which the unions are presenting in connection with their case.

On the side of management, we have been endeavouring to build up personnel staff that will be able to match the facilities which have been developed by union leadership over the years and at this time I have not seen much evidence that the economists or experts on one side really sit down and talk these things over with the other side. That is one of the elements of cooperation that I would like to see developed but so far I have not seen much evidence of it because the only time we see them or know them is when they appear as expert witnesses before a board of conciliation.

Mr. MACDONNELL: In other words you really only see them when there is a dispute?

Mr. GORDON: We only see them when there is trouble; when the efforts, voluntary efforts, of collective bargaining have broken down and application has been made both by labour and management for the employment of a board of conciliation under the provisions of labour legislation to deal with the case presented by both sides to the dispute, and it is during a hearing of that dispute that we see and hear from the expert economists or whatever you want to call them. That is the only time we see or work with them and they vary from time to time and from case to case.

Mr. MACDONNELL: Would you think it is desirable if it could be brought about to have that economic discussion continue?

Mr. GORDON: I do. It is part of the thing I have in mind. I hope for opportunities for meetings of that type where there can be a meeting between management and labour to try and discuss these issues between us in a more or less objective way, particularly for the purposes of establishing and determining a code of ethics, a means whereby yardsticks might be established in respect of statistical data which appear in the course of negotiations. In the course of negotiations between labour and management there always is, and always has been a difference of opinion in regard to the criteria that might be used as to whether or not railway labour has kept pace with similar types of labour in other industries, and so forth. I think it would be very useful if it were possible to find a common ground in that respect by discussion between the experts.

The CHAIRMAN: Employees relations?

Carried.

The budget.

CANADIAN NATIONAL RAILWAYS
Summary Forecast of Financial Requirements—Year 1953

	1953	1952
	Estimated	Actual:
	\$	\$
<i>Income Account—</i>		
Operating Revenues.....	720,000,000	675,219,415
Operating Expenses.....	676,600,000	634,852,915
Net Operating Revenues.....	43,400,000	40,366,500
Net Income Charges (excluding Interest).....	14,700,000	16,061,052
Available for payment of Interest.....	28,700,000	24,305,448
Interest on Funded Debt—Public.....	21,600,000	21,848,906
Interest on Government Loans.....	6,700,000	2,314,215
Income Surplus.....	(xx) 400,000	142,327

Capital Budget—1953

	1953 Estimated	1952 Budget:	Page No.
<i>Additions and Betterments—</i>			
General (excluding new equipment).....	12,323,366	27,363,257	3
<i>New Equipment—</i>			
1953 (Additional) Orders—\$13,724,000, of which \$9,959,000 will be delivered in 1953.....	9,959,000	2,413,092	8
<i>Acquisition of Securities.....</i>	293,000	516,900	10
<i>Additional Working Capital.....</i>	15,000,000	15,000,000	—
	37,575,366	45,293,249	

(xx) Preliminary estimate only. Account has not been taken of that portion of the cost of settlement of wage awards to firemen and trainmen which is referable to the 1952 dates to which the settlements are retroactive, nor has account been taken of any increase which may flow from the freight rate increase application presently under reservation by the Board of Transport Commissioners for Canada.

CANADIAN NATIONAL RAILWAYS

Summary of 1953 Financial Authorization Required with 1952 Comparison.

	1953 Estimated	1952 Budget:	Page No.
	\$	\$	
<i>Capital Expenditures—</i>			
1953 Budget Program—as detailed hereinbefore.....	37,575,366	45,293,249	1
<i>Branch Lines—</i>			
Sherridon-Lynn Lake—authorized C.44 Statutes of Canada 1951.....	2,758,513	7,800,000	11
Terrace-Kitimat—authorized C.20 Statutes of Canada 1952.....	6,580,000		12
<i>Revotes, and to complete projects previously authorized.....</i>	35,561,634	23,014,271	6
<i>New Equipment:—</i>			
Authorized by Financing and Guarantee Act 1952, the cost of which equipment exceeded the originally estimated cost by.....	2,366,985	8,325,822	7 (D)
Financing previously authorized by Financing and Guarantee Acts as follows:			
1951, 1952.....	199,000		7 (A)
1951 (No. 2), 1952.....	3,055,700		7 (B)
1952.....	5,333,000		7 (C)
Ordered pursuant to Financing and Guarantee Act 1952.....	36,630,000	20,389,043	8 (E)
	130,060,198	104,822,385	
<i>Less:</i>			
Available from Depreciation Reserves.....	19,900,000	17,350,000	
Proceeds of Sale of Preferred Stock.....	21,600,000		
	88,560,198	87,472,385	

- (1) The Financing and Guarantee Act, 1952 will be utilized as the authority for the financing of \$31,707,000 (estimated) being in respect of capital expenditures on equipment ordered prior to 1953 but delivered between January 1st and June 30th, 1953, as contemplated in Section 3 (1) (c) of said Act. See page 9(H).
- (2) Authority is requested to place orders for new equipment contained in the 1953 budget program in the amount of \$3,765,000 (see page 8(F)) and for new equipment to be included in the 1954 budget program in the amount of \$54,534,000 (see page 9(G)) none of which equipment will be delivered in 1953.
- (3) Authority is also requested to enter into contractual obligations amounting to \$16,406,625 respecting general additions and betterments excluding new equipment, which amount will not become due and payable in the current calendar year. See page 3.
- (4) Authority is also requested to the Minister of Finance to make advances in 1954, prior to the enactment of the Financing and Guarantee Act, 1954, to the extent of \$80,000,000 against capital expenditures made respecting new equipment ordered pursuant to the authority requested in (2) above or to similar authority contained in previous Financing and Guarantee Acts and respecting contractual obligations for general additions and betterments incurred pursuant to the authority requested in (3) above.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments—General
(Excluding New Equipment)

	1953	1952	1953	1952
	\$	\$	\$	\$
<i>Road</i>				
Less—Revotes.....	22,363,281	15,068,736	62,523,718	41,769,231
Commitments (Revotes).....	4,558,915	—		
Commitments (New Funds).....	3,599,026	—	30,521,222	15,068,736
			<u>32,002,496</u>	<u>26,700,495</u>
<i>Subsidiary Companies</i>				
Less—Revotes.....	490,646	Cr. 6,598	5,309,236	373,163
Commitments (Revotes).....	—	—		
Commitments (New Funds).....	4,000,000	—	4,490,646	Cr. 6,598
			<u>818,590</u>	<u>379,761</u>
<i>Departments</i>				
Less—Revotes.....	9,768,015	5,743,647	20,792,831	23,241,856
Commitments (Revotes).....	3,595,000	—		
Commitments (New Funds).....	653,684	—	14,016,699	5,743,647
			<u>6,776,132</u>	<u>17,498,209</u>
<i>Equipment—Additions and Betterments and Conversions</i>				
Less—Revotes.....	2,939,692	2,208,486	6,085,882	8,101,278
Commitments (Revotes).....	—	—		
Commitments (New Funds).....	—	—	2,939,692	2,208,486
			<u>3,146,190</u>	<u>5,892,792</u>
<i>Equipment Retirements</i>			Cr. 7,420,042	Cr. 8,108,000

SUMMARY

<i>Gross</i>			87,291,625	65,377,528
Less—Revotes.....	35,561,634	23,014,271		
Commitments (Revotes).....	8,153,915	—		
Commitments (New Funds).....	8,252,710	—	51,968,259	23,014,271
			<u>35,323,366</u>	<u>42,363,257</u>
Less—Projects Uncompleted.....			23,000,000	15,000,000
Net—Additions and Betterments—General.....			<u>12,323,366</u>	<u>27,363,257</u>

SESSIONAL COMMITTEE

CANADIAN NATIONAL RAILWAYS

1952 Financial Requirements compared with the Budget

	1952 BUDGET	1952 Actual Requirements
	\$	\$
General Additions and Betterments.....	27,363,257	} 37,091,213
Revotes, and to complete projects authorized in previous years.....	23,014,271	
Sherridon-Lynn Lake Branch Line.....	7,800,000	6,034,614
New Equipment.....	(x) 31,127,957	(x) 16,532,231
Acquisition of Securities.....	516,900	Cr. 1,869,664
	89,822,385	57,788,394
Available from Reserves for Depreciation and Debt Discount Amortization.....	Cr. 17,350,000	Cr. 16,297,815
	72,472,385	41,490,579
Additional Working Capital.....	15,000,000	15,000,000
	87,472,385	56,490,579
Less amount received in respect of the year 1952 by C. N. Ry. Co. from sale of 4% Preferred Stock, used to meet Capital Expenditures included above.....	—	20,256,582
	87,472,385	36,233,997
(x) New Equipment—additional to the above—financing authorized by Financing and Guarantee Acts Nos. 1 and 2, 1951, to the extent of \$64,932,895. As this authority was available at the time of preparation of the 1952 Budget, financing re-authorization was not requested thereby, but the Financing and Guarantee Act 1952 when enacted, did re-authorize the expenditure.....	64,932,895	60,488,541
Total.....	152,405,280	96,722,538

CANADIAN NATIONAL RAILWAYS

1952 Capital Expenditures compared with 1952 Budget
By Regions, Departments, etc.

	1952 Budget	1952 Capital Expenditures
	\$	\$
<i>Additions and Betterments—</i>		
Atlantic Region, incl. Newfoundland District.....	6,716,233	3,588,326
Central Region, incl. Montreal Terminals Dev.....	18,084,800	12,400,630
Western Region, incl. D.W. & P. Ry.....	12,485,816	10,071,535
Grand Trunk Western Railroad.....	4,156,332	1,721,826
Central Vermont Railway.....	326,050	115,634
Subsidiary Companies.....	373,163	149,015
Express, Communications and Other Departments.....	23,241,856	10,313,129
Additions and Betterments—Equipment—Canada.....	8,101,278	5,859,480
Equipment Retirements.....	Cr. 8,108,000	Cr. 7,128,668
	65,377,528	37,091,213
Less: Portion of projects included in above requirements not physically completed by the end of the year.....	15,000,000	—
Sherridon-Lynn Lake Branch Line.....	7,800,000	6,034,614
Total—Additions and Betterments—Net.....	58,177,528	43,125,827
<i>New Equipment.....</i>	<i>*31,127,957</i>	<i>*16,532,231</i>
	89,305,485	59,658,058
* New Equipment—additional to the above—financing authorized by Financing and Guarantee Acts Nos. 1 and 2, 1951, to the extent of \$64,932,895. As this authority was available at the time of pre- paration of the 1952 Budget, financing re-authorization was not requested thereby, but the Financing and Guarantee Act 1952 when enacted, did re-authorize the expenditure.....	64,932,895	60,488,541
Total.....	154,238,380	120,146,599
<i>New Equipment—</i>		
Financed through Equipment Trusts—		
Series "U".....		439,152
Series "V".....		4,565,738
		5,004,890
Total Expenditures in 1952.....		125,151,489

CANADIAN NATIONAL RAILWAYS
Financial authorizations—1953 Requirements by Regions, Departments, etc.

	Atlantic Region	Newfound- land District	Central Region	Western Region	Grand Western Trunk	Central Vermont Railway	Other	Total	Revotes
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Road</i>									
Abandoned Lines—Main and Branch Lines.....			Cr. 291,847	1,165,000				Cr. 291,847 1,165,000	
New Lines.....									
Rails and fastenings, tieplates and rail anchors.....	1,278,111	217,140	3,522,193	2,538,980	364,700	109,771		8,030,895	
Ballast.....	626,869	62,815	69,498	27,000	208,600	54,008		1,048,790	
Roadway Betterments.....	15,103	54,241	26,625	179,385	10,200	4,000		290,104	
Large Terminals.....			2,620,269					2,620,269	
Yard tracks and sidings.....	1,034,763*	162,723	1,931,383	2,162,397	48,300	4,368		5,339,566	
Roadway Machines.....	148,120	24,793	1,034,940	647,700	53,950			1,913,871	
Bridges, Trestles and Culverts.....	91,285	37,384	345,026	1,320,770	118,000	30,896		1,943,361	
Tunnels.....				53,000				53,000	
Highway and Crossing Protection.....	112,500		203,259	1,880	180,500			498,139	
Stations and Station Facilities.....	635,752	210,284	1,673,821	858,805	99,075	Cr. 35,797		3,441,940	
Water supplies.....	21,897	2,500	120,859	54,941	Cr. 5,100	Cr. 12,509		182,588	
Fuel Stations.....	50,147	7,700	40,960	731,070	3,400	76,450		909,727	
Shops, Enginehouses and Machinery.....	490,353	50,547	1,374,890	667,157	349,465	40,112		2,972,524	
Docks and Wharves.....				429,780	22,400			452,180	
Grain Elevators.....			24,000					24,000	
Signals and Interlockers.....			249,651	1,633,745				1,883,396	
Land.....			46,100					46,100	
Electrifying Lines.....				3,350				3,350	
General Additions and Betterments and Contingencies.....	1,376,163	699,463	15,939,748	10,138,323	1,112,208	39,679	1,932,115	31,237,699	27,607,422
Subsidiary Companies.....							5,309,236	4,309,236	
Miscellaneous Equipment.....	6,269	39,772	120,729			4,411	688,137	859,318	
Communications—Commercial.....							14,614,569	14,614,569	9,651,626
Communications—Railway.....							1,017,681	1,017,681	708,212
Hotels.....							3,060,329	3,060,329	2,808,597
Equipment—Additions and Betterments and Conversions.....									
Equipment—Retirements.....							6,085,882	6,085,882	2,939,692
							Cr. 7,420,042	Cr. 7,420,042	
Commitments—Not payable in 1953....	5,887,332	1,569,362	29,052,104	22,613,833	2,565,698	315,389	25,287,907	87,291,625	43,715,549
	Cr. 510,760		Cr. 2,652,766	Cr. 4,265,415	Cr. 209,000		Cr. 8,768,684	Cr. 16,406,625	Cr. 8,153,915
	5,376,572	1,569,362	26,399,338	18,348,418	2,356,698	315,389	16,519,223	70,885,000	35,561,634

Less portion of projects not to be completed during year.....	23,000,000	.....
New Equipment.....	47,885,000	.....
Sherridon-Lynn Lake Branch Line.....	57,943,685	.....
Terrace-Kitimat Branch Line.....	2,758,513	.....
Net Additions and Betterments.....	6,580,000	.....
	114,767,198	.....
Additional Working Capital.....	15,000,000	.....
Acquisition of Securities.....	293,000	.....
Less: Available from Depreciation Reserves and Debt Discount Amortization.....	19,900,000	.....
Available from Sale of Preferred Stock.....	21,600,000	.....
TOTAL REQUIREMENTS.....	88,560,198	.....
		35,561,634

CANADIAN NATIONAL RAILWAYS

New Equipment

CANADIAN NATIONAL RAILWAYS—NEW EQUIPMENT

Estimated Cost

- (A) Authority is requested for the financing, to the extent indicated, of the undernoted New Equipment, the ordering and financing of which was authorized originally by the Financing and Guarantee Act 1951 (No. 1), the financing being re-authorized by the Financing and Guarantee Act, 1952, but which equipment will not be delivered until 1953:

Freight Equipment

500 Box cars (G.T.W.)

Passenger Equipment

28 Baggage cars

Work Equipment

1 Browning crane (C.V.R.)

Estimated Cost..... \$ 5,754,000

Estimated amount to be financed pursuant to Financing and
Guarantee Act, 1952, Section 3(1) C..... 5,555,000

Financing requested, 1953..... \$ 199,000

\$ 199,000

- (B) Authority is requested for the financing of the undernoted New Equipment, the ordering of which was authorized by the Financing and Guarantee Act, 1951, and the financing of which was authorized originally by the No. 2 Act of that year, and re-authorized by the Financing and Guarantee Act, 1952, but which equipment will not be delivered until 1953:

Freight Equipment

300 Gondolas (G.T.W.)

125 Hoppers—Covered (G.T.W.)

\$ 3,055,700

- (C) Authority is requested for the financing, to the extent indicated, of the undernoted New Equipment, the ordering of which was authorized by the Financing and Guarantee Acts 1951 and 1952, and the financing of which was authorized originally by the Financing and Guarantee Act, 1952, but which equipment will not be delivered until 1953:

Freight Equipment

350 Box cars (G.T.W.)

125 Hoppers—Covered

Passenger Equipment

60 Baggage cars

Work Equipment

8 Snow plows

30 Air dump cars

Tank cars—secondhand (G.T.W.)

1 Industrial Hoist (G.T.W.)

1 Locomotive crane

2 Locomotive cranes—40 ton

1 Burro crane (G.T.W.)

Estimated Cost..... \$ 10,340,000

Estimated amount to be financed pursuant to Financing and
Guarantee Act, 1952, Section 3(1) C..... 5,007,000

Financing requested 1953..... \$ 5,333,000

\$ 5,333,000

- (D) Authority is requested for the financing of an additional amount of \$2,366,985, by which the cost of New Equipment, ordered in 1951 and delivered in 1952, exceeded the estimated cost of such equipment authorized by the Financing and Guarantee Act, 1952.....

\$ 2,366,985

CANADIAN NATIONAL RAILWAYS

New Equipment

(E) Authority is requested for the financing, to the extent indicated, of the undernoted New Equipment, the ordering of which was authorized by the Financing and Guarantee Act, 1952, and which equipment will be delivered in 1953:

Estimated Cost

Diesel Electric Locomotives

22	600-660 HP Switchers
1	1000-1200 HP Switcher (C.V.R.)
3	1000-1200 HP Switchers (G.T.W.)
6	1200 HP Road Switchers (Newfoundland)
70	1500-1600 HP Road

Freight Equipment

1200	Box cars
100	Box cars (Newfoundland)
150	Flat cars (Newfoundland)
5	Flat cars—Depressed
75	General Service (Newfoundland)
500	Gondolas
100	Gondolas (G.T.W.)
50	Gondolas—Ore Type—80 Ton
300	Hoppers—Triple—70 ton
150	Hoppers—Covered
50	Hoppers—Covered (G.T.W.)
200	Refrigerators
50	Refrigerators (Newfoundland)

Passenger Equipment

30	Baggage cars
10	Coaches
5	Coaches (G.T.W.)
25	Sleepers

Work Equipment

12	Snow plows (Newfoundland)
100	Ballast cars
1	Wrecking crane
	Traction motors—Multiple unit cars (2)

Estimated Cost.....	\$ 57,775,000
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Estimated amount to be financed pursuant to Financing and Guarantee Act, 1952, Section 3(1) C.....	21,145,000
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Financing requested 1953.....	\$ 36,630,000
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\$ 36,630,000

(F) Authority is requested for the ordering, and to the extent indicated, for the financing in 1953, of the undernoted New Equipment:

Diesel Electric Locomotives

8	1200 HP Road Switchers
42	1600 HP Road Switchers

Work Equipment

4	Snow plows
1	Snow Melter
3	Jordan Spreaders
330	Ballast cars
15	Air dump cars
5	Air dump cars (G.T.W.)
2	Locomotive cranes
1	Burro crane
1	Industrial hoist
	Spare Traction Motors for Diesel Locomotives (2)
	Spare Diesel Engines, Trucks and Traction Motors

Total estimated cost \$13,724,000, of which \$9,959,000 will be required to cover deliveries anticipated during 1953.....	\$ 9,959,000
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Some portion of the balance of this equipment (estimated cost \$3,765,000) will be delivered prior to the enactment of the Financing and Guarantee Act of 1954.

CANADIAN NATIONAL RAILWAYS

New Equipment

Estimated Cost

(G) Authority is requested for the ordering in 1953 of the undernoted New Equipment, to be included in the 1954 Budget program and which equipment will not be delivered until 1954:

Diesel Electric Locomotives
26 600 HP Switchers
20 1000 HP Switchers

Freight Equipment
2850 Box cars
100 Box cars (G.T.W.)
100 Box cars (Newfoundland)
100 Flat cars (G.T.W.)
100 Flat cars (Newfoundland)
10 Flat cars—Heavy Duty
500 Gondola cars
200 Gondola cars (G.T.W.)
300 Hoppers
200 Hoppers—Covered
100 Refrigerators (G.T.W.)
15 Stock cars (Newfoundland)

Passenger Equipment
30 Baggage cars
57 Coaches
5 Coaches (Newfoundland)
1 Sleeper (Newfoundland)

Total Estimated Cost \$54,534,000

It is anticipated that some portion of this equipment will be delivered prior to the enactment of the Financing and Guarantee Act of 1954.

(H) The estimated amounts, as indicated hereinbefore, required for the purposes of Section 3 (1) C of the Financing and Guarantee Act 1952, are as follows:

A	\$ 5,555,000
C	5,007,000
E	21,145,000
	<hr/>
	\$ 31,707,000

Total.....	<hr/> <hr/>	\$ 57,543,685
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CANADIAN NATIONAL RAILWAYS

Acquisition of Securities

	1952 Budget	1952 Actual	1953 Budget
	\$	\$	\$
<i>Toronto Terminals Railway</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Pro- portion 50%.....	62,500	—	Cr. 530,000
<i>Northern Alberta Railways</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Pro- portion 50%.....	250,000	425,000	550,000
<i>Trans-Canada Air Lines</i> Temporary deposits made with Canadian National Railways.....	—	Cr. 2,500,000	—
<i>Chicago and Western Indiana Railroad</i> Advances under agreements of March 1/36 and May 1/52	202,900	202,936	270,500
<i>Atlantic and St. Lawrence Railroad</i> Purchase of Capital Stock.....	1,500	2,400	1,500
<i>The Shawinigan Falls Terminal Railway Co.</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Pro- portion 50%.....	—	—	1,000
	516,900	Cr. 1,869,664	293,000

CANADIAN NATIONAL RAILWAYS

Construction of new branch line from Sherridon to Lynn Lake, Province of Manitoba

Authorized by Chapter 44, Statutes of Canada 1951

Total Estimated Mileage.....	155
Total Estimated Expenditures.....	\$ 14,725,000

Location Surveys—100% complete.

Right of way clearing is through to Lynn Lake—98% complete.

Temporary telephone line erected and in operation from Sherridon to the Churchill River, mileage 53.5.

Culverts placed from Sherridon to mileage 83.

Timber trestles constructed to mileage 72.

Grading completed sufficiently to permit track laying from Sherridon to the southerly crossing of the Churchill River, mileage 53.5, by the end of 1952, and is in progress from there to mileage 84.

Crossing of the Churchill River involved bridging 3 channels. These are steel bridges 201'4", 155'10" and 201'4" respectively, and are completed.

Track is laid from Sherridon to the north bank of the Churchill River, being a distance of 54.2 miles.

Siding, wye and material yard trackage for advanced railhead on the south bank of the Churchill have been constructed.

First ballast lift has been placed from Sherridon to Mileage 40, and to Mileage 53.5 sufficient material has been placed, at the end of ties, to hold the track in line until it is possible to resume ballasting in the spring.

Materials required for culverts and bridges, yet to be constructed, are to be carried by train from Sherridon to the Churchill River and hauled ahead by tractor prior to spring "break-up".

The total expenditure on this project to December 31st, 1952, amounted to \$7,241,487. It is estimated that the total expenditure for the year 1953 will be \$7,483,513, of which \$2,758,513 will be borne by the Canadian National.

CANADIAN NATIONAL RAILWAYS

Construction of new branch line from Terrace to Kitimat, Province of British Columbia

Authorized by Chapter 20, Statutes of Canada 1952

Total Estimated Mileage.....	46
Total Estimated Expenditures.....	\$ 10,000,000

Location surveys have been completed and construction engineer's headquarters have been established near Terrace and three resident engineers, with parties, have been set up in camps on the line at miles 2, 9 and 15 respectively.

Contract for clearing, grading, installation of culverts, construction of timber trestles and concrete sub-structures for four steel bridges to cross the Lakelse, Coldwater, Wedeene and Little Wedeene Rivers, has been awarded to Campbell-Bennett Limited, Vancouver, the lowest bidders, who commenced clearing right of way on November 7, 1952, but have suspended work on account of snow until Spring of 1953.

Contract for concrete sub-structure for the steel bridge to cross the Skeena River near Terrace has been awarded to Dawson and Hall Limited, Vancouver, and this work will commence early in 1953, with completion estimated during March 1954.

Contract for the steel superstructure will be awarded early in 1953.

Culvert and bridge materials for the north end of the line are, being delivered at Terrace and stock-piled there pending movement to sites on the line.

It is estimated that the total expenditure on this project for the year 1953 will be \$6,580,000.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

	1952 Budget	1952 Actual	1953 Budget
	\$	\$	\$
<i>Income Account—</i>			
Operating Revenues.....	6,261,024	7,449,247	5,100,000
Operating Expenses.....	6,580,062	7,122,971	4,685,750
Net Operating Deficit.....	319,038		
Net Operating Profit.....		326,276	414,250
Vessel Replacement fund earnings.....	145,500	145,065	162,000
Interest requirements on 5%—25 year Bonds due 1955, principal amount \$9,400,000.....	470,000	470,000	470,000
Interest on Government Notes and Advances.....	90,462	5,250	5,250
Income Deficiency.....	734,000	3,909	
Income Profit.....			101,000
Provision for Income Tax.....			38,000
Income Profit after Income Tax.....			63,000

Note:—Additional Income Tax provision from surplus of Insurance Fund.....

70,000

144,000

<i>Capital Budget—</i>			
General Betterments.....	58,000	39,500	
Vessels sold—Net sale price.....			Cr. 705,000

NOTE:—Funds for Capital Expenditures have been provided from Vessel Replacement Fund; net proceeds from the sale of vessels will be paid to that fund.

The CHAIRMAN: If you will turn to page 2 and 3 of the budget you will find a summary of the 1953 finance authorization required.

Mr. MACDONNELL: Do you not think we might ask Mr. Gordon to take us through this. It is a matter of great importance.

The CHAIRMAN: I think that would be helpful.

Mr. GORDON: If members of the committee will look at the papers in front of them, I shall try to explain these particulars in such a way that it will be readily understandable. I must, however, warn you that this budget is of increasing complexity because it covers not only the new requirements pertaining to the present year, but it also deals with past requirements which are in a transitional stage and also projects into the future, so it is necessary to remember that when looking at any individual figure as I take you through it. I shall try to explain which figure applies to this year, which figure applies to past years but which are still going on, and figures which are contemplated in programmes which may not be completed over a period of two, three, or four years. Now, on page number one, we have summarized the usual forecast of our requirements for 1953. You will see shown the estimated income account, operating revenues \$720 million, operating expenses \$676 million, coming down to a figure of income surplus estimated at \$400,000. I want it to be clear to the committee that this is a preliminary estimate made up before we had taken into account that portion of the wage cost to firemen and trainmen which was retroactive to April 1952; nor does it take into account the freight rate increase of 7 per cent effective as from March 16th this year under ruling of the Board of Transport. I have not taken these into account, nor suggested an amendment, because there are too many uncertainties in the picture. Therefore, this can only be considered as an educated guess and I can say to the committee I would hope that with good luck and good judgment and maintenance of economic conditions at the present level that the surplus there shown would be substantially increased as it should be.

Mr. MACDONNELL: You have told us the figures you have not taken into account. Could you indicate on what basis you have arrived at the \$720 million; in other words just why you have estimated \$45 million improvement? Is it higher rates or more business or both?

Mr. GORDON: We are estimating that with the current activity that we should expect about a 2 per cent increase in our traffic over last year. Now, I emphasize that is an estimate. And with a 2 per cent increase over 1952 of traffic translated into freight rates with the awards authorized by the Board up to the end of December 31st, 1952, we figure we ought to come out at \$720 million. I do want to point out that in figures of \$720 million a very small percentage one way or the other can affect the estimate by \$20 or \$30 million. It is hard to speak precisely in regard to a forecast of that magnitude. But it is the best guess we have.

Mr. MACDONNELL: You estimate an increase over 1952 traffic?

Mr. GORDON: Yes.

Mr. MACDONNELL: My recollection is the estimate of total activity for G.N.P. is for a larger increase, that it is four or five per cent.

Mr. GORDON: There are no figures out as far as I know giving a revised estimate of 1953 G.N.P., but generally speaking G.N.P. has been increasing from 4 to 6 per cent. G.N.P. includes a great number of export figures which would not necessarily produce traffic for the railway. The estimate we have made is based on a factual examination of the kind of traffic we expect to see carried by rail assuming a level of economic activity which is likely to carry forward from 1952.

Mr. MACDONNELL: In other words this is not just a figure applied over-all, it is built up from your assessment of expectation of traffic of various kinds?

Mr. GORDON: That is right. It comes to us from estimates from our traffic offices in all regions and represents what I called before an educated guess.

Mr. MACDONNELL: Would you say something about the operating expenses?

Mr. GORDON: They are perhaps a little firmer guess because we know reasonably well what our labour force is likely to be and what our additional costs are, subject to anything that might develop later in the year. At the moment this estimate was made we had not settled with the firemen or trainmen, nor had we received the 7 per cent judgment of the Transport Board; but if we can assume we will have no more labour demands, then I think those figures can be amended to the extent of about \$4½ million extra expense due to the retroactive wage awards to firemen and trainmen. It will cost us about \$4½ million more wages in that sector and maybe some consequential adjustments which may be half a million dollars. Let us say roughly \$5 million additional expense on the debit side, and if our expectations are realized as to what we might get out of the freight increase which became effective on March 16th, we hope that might give us \$10 to \$12 million. So that with good luck, with good management, and with no unexpected additional increases in our expenses by reason of labour, and assuming freight rates will yield what we hope they will, I would say we ought to have a few million dollars surplus instead of the \$400,000. But I have not asked to have that figure amended because there are so many uncertainties. I should say our actual results for the months of January and February have been quite disappointing. Estimates of traffic for those months have shown a considerable decline.

Mr. MACDONNELL: Could you indicate why or where it has been felt?

Mr. GORDON: It has been a pretty general decline. For example if I take the February results, we budgeted for a figure of revenue which failed of accomplishment actually by about \$2 million. In other words, we thought we would have about \$55 million actual revenue by the end of February, and in point of fact we came up with \$53 million actually. I can give you the detailed tonnage of the decrease. I have not yet been able to analyze them, but we have shown decreases in tonnage during January of pulp wood of about 43 per cent and bituminous coal by about 20 per cent. Bituminous coal and anthracite coal are down, due we think to mild weather conditions. Ores and concentrates are down. The two main items are pulpwood and coal on the decrease side. But, we have had some increases, grain in particular. It is carried at a lower rate and does not give as much benefit as the others do. I have a table here showing the different tonnage decreases and, as I say, the main decreases are represented in pulpwood and coal.

Mr. MACDONNELL: It seems to me your operation is one of the very best barometers of the whole Canadian economic activity, and that is my excuse for asking these questions. Why do you figure that ores and concentrates are down?

Mr. GORDON: Well, the danger of any analysis of this kind, Mr. Macdonnell, is in taking it in too short a range, and if we look at January and February I do not think you can get an intelligent examination because it might be a very temporary withholding of shipments; it might be a technical difficulty with regard to some particular mine, and we might very easily get that traffic in the course of the next period, and then I am reminded, too, of an obvious fact that February, as compared with last year, has one day less. Even one day makes a difference in the monthly results in tonnage, but we cannot analyze these in such a brief period; we need a few more months to really form an opinion as to whether or not that trend is going to continue, because we often find that one month might show a sharp decline, and then we pick it up the next month. Reasons of weather might be an example. There might be a shutdown of a plant for reasons of rehabilitation, or any one of a number of

things, so that while I agree with you that rail carloadings and rail movements represent one of the best barometers of economic conditions, nevertheless the examination should be made over a fairly decent range, and not too short a range; not week to week.

Mr. MACDONNELL: Would you give us the figures for January, if convenient?

Mr. GORDON: The month of January—operating revenues of \$51,657,000 as against \$51,470,000 for January, 1952, which is practically the same, you see, but as against that our operating expenses in January, 1953, were \$57,573,000 as against \$51,261,000. Now, one of the reasons for that is that included in the month of January we had to take into account the \$4½ million retroactive wage factor which I mentioned in the annual report, which we had to pay back.

Mr. MACDONNELL: It fell all in the one month?

Mr. GORDON: Yes, it might as well; it does not make any difference. We report our final results by the year, but of course it does distort the figures for that one month.

Mr. MACDONNELL: Net income charges, I observe, are down. Why is that? Net income excluding interest.

Mr. GORDON: Included in that figure we have what we call hire of equipment. That is to say, we use equipment belonging to other lines on a per diem basis, and we have to pay the hire. Now, the figure last year, you will notice, was \$16 million. We estimate it will be less than that this year for the reason that we are gradually catching up on our own equipment. We do not have to depend on foreign equipment as much and we can return equipment which comes into our hands more rapidly. Per diem charges are saved and we use our own equipment to better advantage.

Mr. MACDONNELL: What is the point when it says interest—I am not quite sure—interest on what?

Mr. GORDON: Available for interest.

Mr. MACDONNELL: No, net income charges excluding interest. I am not sure I understand that.

Mr. GORDON: Because this is a net income charge, it is simply a bracketing together of quite a number of accounts and we do not include interest because underneath there we show the interest separately, interest on public debt, interest on government loans. Some railways bracket it together in one heading, but we show our interest charges separately.

Mr. MACDONNELL: I am sorry, I have not quite got it yet. The income charges, I think you said, were on such things as equipment and so on.

Mr. GORDON: The heading under income charges is a summary or a consolidation of quite a number of miscellaneous accounts. If you look at the heading "Income Account" at page 24 of the annual report, you will see those figures under taxes and rents, other income, deductions from income, all those are definitely bracketed together and they are all lumped under that heading, and the main difference is that we expect to pay less for hire of equipment this year than we did last year. Now, then, in setting up this heading we show net income charges, but for convenience we do not include interest because we are showing the interest separately underneath there. We think that is an item that should be brought especially to the attention of the committee.

Mr. MACDONNELL: But interest on those matters you have just described would be—

Mr. GORDON: No, the interest has nothing to do with the accounts in that heading. This is the interest that we owe on our outstanding debt in the hands of the public or on loans from the government.

Mr. MACDONNELL: Those are two items further down?

Mr. GORDON: Yes, sir, that is correct. I am afraid it is confusing, but we are just sort of emphasizing we are not including the interest account.

Mr. MACDONNELL: I find it rather confusing myself, because actually you have some income bonds now, have you not?

Mr. GORDON: We have no income bonds. We have preferred stock. There was a suggestion one time that there might be income bonds issued in connection with the recapitalization, but, thank goodness, we mowed that one down.

Mr. MACDONNELL: Now, this interest on government loans, I see, was \$3½ million.

Mr. GORDON: That represents additional borrowing from government over the year and if we decide this year to float a bond issue in the market, then we will fund that particular borrowing by issuing bonds and our interest charge will be reduced to government and increased to the public.

Mr. MACDONNELL: Could you say a word on the various new lines that are being built? Could you say a word as to when they will become revenue producing? There are several, are there not?

Mr. GORDON: Well, the new lines at the moment are Lynn Lake and Kitimat. And in both of those cases we have entered into an agreement with the industry we are serving which will ensure that we will obtain sufficient traffic to carry the capital cost of that line over an amortization period, failing which, the companies in question have guaranteed us enough money to do so. In other words, in the case of a single industry such as at Lynn Lake, or at Kitimat, we have established the principle that when we build a branch line into there, that they will undertake to guarantee us sufficient traffic over a period of time to justify that capital expenditure. Quite a number of factors enter into it. But when the formula is boiled down, it comes to this: that the industry says: "We know that there will be enough traffic on the figures you have produced to carry the capital cost of this line. There will be enough freight revenue. But if it does not materialize, we undertake to pay you—on the formula which was worked out for them.

And if new industries go into that area, we credit against that agreement the amount of the traffic which we get from those new industries. It is a completely fair agreement to all concerned. It means that the railway is not solely taking the capital risk in respect to the new branch lines.

Mr. BENIDICKSON: The Department of Defence Production are taking some of the risk, are they not?

Mr. GORDON: In the case of Lynn Lake, there is an agreement with the Department of Defence Production that because of the urgent necessity of getting production into operation as quickly as possible, by reason of the contract entered into with the United States government, they have agreed, under the capital assistance program, to pay the cost of that line over and above \$10 million. That is the agreement that has been entered into. It rather represents a premium for speed, and it has been justified in terms of the Canadian defence effort.

Mr. MACDONNELL: May I ask if in a contract of that kind you extend it in the case of a line built to serve a company? Do you really get a contract whereby that company undertakes to be responsible for it? You said something about amortized capital costs.

Mr. GORDON: What I mean by that is this: We would say to the company, in looking over the general proposition, that we might build a line, let us say, from here to there. We would say to them, in discussing it, that if we could build that line so that we could be assured of freight revenue of X amount

over a period of 10 or 15 or 20 years, at the regular freight traffic rates, it would be a good risk for us to spend the capital in building that line. We would say to them: We do not know if you are going to be successful in your enterprise, and it may well be that you will not produce enough freight traffic for us over that period. Or alternatively, it may fail, and instead of a 20-year life you may get only a 10- or 15-year life. It is not reasonable that we should take that risk on our own, so we say: If you will guarantee to us a certain volume of freight traffic over that period of years of not less than so and so, then we will build the line. But if that freight traffic does not eventuate, then you will reimburse us under the formula. They underwrite the traffic, and if it does not materialize, then they reimburse us under a formula.

The CHAIRMAN: To an amount which will be equal to the amount required to retire the principal.

Mr. GORDON: That is the general aim, yes. But in working out the formula it becomes quite complicated, because we give them every fair advantage. It is purely straight forward business deal. We say for instance, in the formula, that if a result of building that line new traffic develops which we have not foreseen—

The CHAIRMAN: You credit them with it.

Mr. GORDON: We credit them with it and we say: all right, it is all considered as traffic. For instance, we built the line going into Lynn Lake, primarily to bring out nickel. But in addition to that, in this particular area we might develop the fish industry; we are not sure. However, if it should develop, we would give them a credit for that.

Mr. MACDONNELL: Provided that they are paying you more than the ordinary freight rates?

Mr. GORDON: No, no. They start in the first instance and they only pay us the ordinary freight rates. But there will be sufficient volume over a period of years.

Mr. MACDONNELL: But suppose it is found that there is not sufficient volume actually. Will they pay you enough to make up for the amortized capital costs?

Mr. GORDON: That is right.

Mr. MACDONNELL: How long is the period of amortization, how many years?

Mr. GORDON: At Lynn Lake I think we put it at a period of 20 years.

Mr. MACDONNELL: Now let us assume at the outset they have to pay you something in excess of ordinary freight rates. Let us assume that a new industry comes in and that you are earning that much more from the new industry. Would you give them a credit beyond the point where they would be paying less than the ordinary freight rates?

Mr. GORDON: Oh no.

Mr. MACDONNELL: In other words they get credit to the point where it comes down to a place where they are paying ordinary rates?

Mr. GORDON: That is right, and we also have a carryover provision that if in one year they had a peak load, nevertheless we would give them that adjustment by putting it forward over a period of years, according to whatever the formula may call for.

The CHAIRMAN: Am I correct in understanding that the end result of such an agreement as that is that the Canadian National Railways incurs no financial risk of loss? What you are doing is financing the project?

Mr. GORDON: Yes, well, we take a risk on the projects, that is right, but we only enter into this kind of traffic arrangement with very responsible companies. In the first instance it was with the Sherritt-Gordon people; and in Kitimat it was with the aluminum people.

Hon. Mr. CHEVRIER: And in the Barraute line it was with Canada Paper.

Mr. GORDON: Yes, it was with Canada Paper which is a responsible industry. I want to say that this has not been a popular matter with the people with whom we have done business. It has been resisted and it has been claimed that we are being too hard-boiled. But nevertheless we have made it stick as being a business deal. And the more it gets understood, the more people will come to accept it as being a sensible arrangement.

Mr. BENIDICKSON: Would that be your policy with the Steep Rock Iron Mines?

Mr. GORDON: That would be our policy with Steep Rock Iron Mines although they are not very pleased about it.

The CHAIRMAN: Carried.

Mr. MACDONNELL: Supposing that freight rates changed during the course of your agreement, would you be entitled to "up" them, or do you commit yourself to a certain rate over the period of amortization?

Mr. GORDON: The formula takes care of that. It is really a dollar formula starting off with the dollar capital expenditure and the contribution of the freight traffic on that line, the degree to which it makes contributions to the overhead of the system. It is a formula figure. If the freight rate is increased, they get recognition for that, subject to the discount factor representing the need for the increase, so to speak, but it is worked out in the formula.

Mr. MACDONNELL: Would you mind saying a word about a phrase which you just used which I find difficult to understand. You used the phrase "proportionate to the amount which they contribute to the general overhead."

Mr. GORDON: That is right.

Mr. MACDONNELL: How does that enter into it?

Mr. GORDON: I do not know if I can explain it. It would take time. Cost accounting of a railroad is one of the most baffling subjects that I ever struck. But we have a bureau of economics and statistics which works out these formulae on a basis of statistics for all types of traffic, and they can analyze what that does in the way of what we call "earning its keep". The particular traffic in any given consideration must earn its keep. It may be that particular traffic is being superimposed on the system where there is already heavy traffic. It may be with or against the stream of other traffic, with or without return loading. It may be that we have to provide empty cars which run all the way up to this mine, for instance. They would have no load going up but they would come back with a full load. That would place it in a different state or condition from circumstances where we would have a full load each way. All those factors are taken into account and analyzed, and when it is all through, it deals with such things as the overhead contribution of the traffic. All these things are broken down by analysis and, when it is all through, the end factor is: What does this traffic contribute over and above the cost of carrying it?

Mr. MACDONNELL: My recollection is that in the case of the Barraute line,—perhaps the minister will remember this—I found it difficult to understand just how it was reckoned that that line was going to be profitable from the outset, and my recollection is that that line had attributed to it a considerable amount of the proportion of the payment for the traffic that originated on it after it had gone around to the mainland. I am not sure if I have that right.

Mr. GORDON: You started off on the original movement of say pulpwood then we say to ourselves—

Mr. MACDONNELL: What I am getting at is, I want to know what is the true picture from the point of view of each of the actual individual transactions, what we are getting out of it, or whether it is being assisted by the general revenue.

Mr. GORDON: In any of that traffic we start off with traffic at the point of origin. From the railway point of view we have definitely in mind the feeder value. In other words you might start off with pulpwood which at a given point is the raw material and we move that pulpwood from here to there and that pulpwood goes into a processing plant and comes out as newsprint. We follow the traffic through in order to determine everything we get out of it by reason of the fact that we have originated the traffic at a specific point.

Mr. MACDONNELL: Does that mean that the line gets not only revenue from the pulpwood, but gets a kind of tip from the fact that you have—

Mr. GORDON: The point is that we give credit to that line. Here is traffic that starts in the wilderness on the branch line and it runs down to the point of manufacture which may be far along the main line. At that point of manufacture the raw material which originates in the wilderness is processed and with processing we get a certain traffic which goes on to the United States and across Canada and so forth. Then we say to ourselves if we had not had that wilderness line we would not have had that traffic, and we follow the traffic through and credit that line not only with the raw material but with a proportion of the subsidiary product which we can trace as feeder value for the rest of the system.

Mr. MACDONNELL: You have made it clear.

The CHAIRMAN: Any further questions on income accounts?

Carried.

The CHAIRMAN: On capital budget additions and betterments.

Mr. GORDON: On the same page, page one, if you will look at the second half of the page, members of the committee will find here our effort to disclose to you that part of our capital budget. . . .

The CHAIRMAN: Order, order gentlemen.

Mr. GORDON: In this part of the presentation we endeavour to disclose to you that part of the capital budget which represents newly initiated projects this year and which will cost us money this year. This represents expenditures to be made this year for new projects just out. Under that heading you will find—additions and betterments—a figure of \$12,328,000 which we will have to finance this year.

If you will turn to page 3 you will see a breakdown.

I would suggest, if you agree, that you allow me to take you through this part, then I can skip back to page 3. Otherwise you might get mixed up in what seems to be a lot of figures.

This represents newly initiated projects for this year which will cost us money this year. The proportion of our additions and betterments of that character total \$12,323,000. New equipment, which we will order this year, will total \$13,724,000 of which only \$9,959,000 will be delivered and paid for as shown under the heading "new equipment". Then we assume we need \$15 million of additional working capital. That I will deal with first.

We are asking for \$15 million additional working capital by reason of the fact that under present day conditions and the increasing rise in dollar values we need more money to finance our business. We have of course a great number of credit accounts represented in accounts in transit, conductors payments in transit and so forth, and the sheer dollar weight of these particular

factors, including inventories, means that we need more dollars to finance it, and we are asking \$15 million additional working capital to meet that condition. Going back to the figure of \$12,323,000.

Mr. MACDONNELL: May I ask a further question. Your order for equipment for 1952 strikes me as being so small—\$2 million.

Mr. GORDON: That represents only a portion of the equipment which was newly ordered in 1952.

Mr. MACDONNELL: You are talking about the 1952 figure?

Mr. GORDON: Yes. That shows you only a portion of the figure for new equipment newly ordered in 1952 and delivered the same year. Most of the equipment which we ordered in 1952 will not be delivered until 1953, and you will pick that up as we go through.

Mr. MACDONNELL: But I inferred from what you said that a considerable amount of the equipment delivered in 1952 was additional to what you ordered previously.

Mr. GORDON: That is quite right.

Mr. MACDONNELL: Where is that?

Mr. GORDON: You will pick that up as we go through. This is an attempt to confine to the one year the new projects and newly initiated purchases for that year which required expenditure in that year. The thing to grasp about our capital budget is that it is in three sections. We have projects, and I included in expenditures for "additions and betterments" equipment which may have been started in a previous year and which had not come to completion until the present year and will be paid for in the present year. There will be purchases which we start this year and on which we can get delivery this year either in the form of work completed or equipment completed and that would be included in the budget for the current year. We will also have purchases again included in betterments and new equipment which we have commenced or ordered in this year and which may not be delivered until next year or the year after, or the year after that, and what we do is to show you in this section only that small, relatively small portion which we commence this year. The next stage will show you the cash implication, the money we need to pay under both headings for previous purchases delivered this year, and new purchases completed this year, and then we will ask you for authority under the Financing Act — which will come up in this budget — to commit ourselves for future deliveries and expenditures which the Minister of Finance will need in due course to recognize that we have entered into these commitments. We have undertaken commitments and we have to commit ourselves, for instance, to the purchase of equipment which may not be delivered for several years, hence no cash is needed this year, but the Minister of Finance is in a position and the Canadian National is in a position that we have committed ourselves for that particular project and we are asking in the next page for authority from you to recognize that commitment so that in a future financial budget in the next year, or the year after, the government of the day, whichever government it may be, will recognize that commitment because it is being authorized now.

Mr. CARTER: Is expenditure on ferries included in this budget.

Hon. Mr. CHEVRIER: No, they are in the estimates of the Department of Transport.

Mr. MACDONNELL: One question. If I have understood you correctly this figure in the capital budget for 1953 is in no sense a statement of the capital budget. It does not include capital amounts which you have to pay in 1953, but let us say equipment contracts which you made in 1952.

Mr. GORDON: That is shown on the next page.

Mr. MACDONNELL: I am going to make this suggestion. I think a person reading this would find it rather difficult without your explanations.

Mr. GORDON: You see there is this point about it. I fully sympathize with you. We have thought it very advisable to set forth clearly the difference between the new items which we are asking for authority for this year.

Mr. MACDOUGALL: Could you give an explanation for the capital budget for 1953 not including items contracted for in previous years which are to be paid for in 1953?

Mr. GORDON: I have attempted to do that on the next page which covers the financial authorizations required this year.

The CHAIRMAN: Capita budget, 1953?

Carried.

Mr. FULTON: Just before we leave this page. I am puzzled by this thing too. Do I understand that this budget is in the nature of a budget where as you show here you have a figure of approximately \$10 million for new equipment that you expect to have to pay this year for new equipment?

Mr. GORDON: Yes.

Mr. FULTON: And that it is in the nature of a budget, and if in fact you should be over estimating the deliveries you will get and you only get delivery of \$8 million, does that leave you with a surplus in your capital budget of \$2 million.

Mr. GORDON: No. We will have to come back next year and ask for a revote.

Mr. FULTON: Perhaps I misapprehended the nature of this budget. Will parliament be asked to vote the sum of approximately \$10 million for that item?

Mr. GORDON: It is included in the other financial authorities which will cover our cash expenditures in 1953. What I am trying to set up here is to show you in 1953 the new thoughts which are summarized in that table. I will show you in the next page the cost of all items which have been previously authorized but which have now got to be paid for in 1953, and I will also show you what portion of that represents revotes and so forth and they are all spelled out with the intention that the financial authorization we will ask parliament to approve following the recommendations, I hope, of this committee will cover the actual payments to be paid this year, but will also authorize us to make commitments for things to be paid in later years.

Mr. FULTON: Now I understand the picture. One final question with regard to your additional working capital figure of \$15 million. Does the same principle apply that if by chance you should not need the whole of that working capital but have, let us say, a surplus of \$2 million? What happens if by any chance you should not need that but have a surplus?

Mr. GORDON: This authorizes the minister to let us draw down from him \$15 million over the year. If we find we do not need it we will not ask for it and it will lapse until next year.

The CHAIRMAN: Carried?

Carried.

Mr. GORDON: Turning to page 2, which is the operating heart of our budget, you will find a total which I took you through of \$37 million which is now the first item you see in this table to be authorized. Then we show branch lines, Sherridon-Lynn Lake on which we estimate we will expend \$2,758,513 this year, then Terrace-Kitimat line on which we estimate we will spend \$6,580,000 and then under that are the revotes, \$35,561,634, previously authorized to be paid for. Under the heading of new equipment you will find there

we expect to spend \$2,366,985 which was authorized in the Financing and Guarantee Act 1952. That is an over-run on our original cost. When we present to you the cost of our equipment we are obliged to deal in basic figures subject to escalator clauses and this is an authorization covering the escalator clause of 1952 authorization.

Mr. MACDONNELL: Does that mean the total expenditure for new equipment is \$9,900,000 for the current year?

Mr. GORDON: No. I will deal with that in a moment. Previously authorized by the Financing and Guarantee Act, 1951, 1952, are those three figures there. This is a financing statement of \$130 million. We show you there that we expect to finance ourselves so to speak to a total of \$19,900,000 out of our depreciation reserves and we will get from the government from sale of preferred stock \$21,600,000, so there is a net figure of \$88 million. Note number one tells you that the Financing and Guarantee Act, 1952, which has already been authorized, will now call for an expenditure of \$31,707,000 for equipment ordered prior to 1953 but which will be delivered in the first half of 1953. Now, the payment authority must be recognized. The equipment will be delivered.

Note number 2 means we are asking for authority to place orders for new equipment in 1953 in the amounts of \$3,765,000 and \$54,534,000 to be included in the 1954 budget, none of which equipment will be delivered in 1953. And if you turn to page 9(g) you will see the details of the equipment there. That is a commitment authority, not a financing authority. The detail there just shows you the different kinds of equipment and to the best of our belief the total of the estimated cost of that equipment, and I say this will come before you again in later years for the cash authority. At the moment we are only asking authority to commit ourselves to place these orders.

Mr. MACDONNELL: Could you at this point just give us the over-all figure spent on equipment, let us say, over the last three years, year by year, if that is convenient.

Mr. GORDON: In 1951 our total new equipment cost us \$56,554,000; in 1952 our new equipment cost us \$82,025,000—that covers, of course, locomotives, freight cars, passenger cars, etc.; the 1950 figure—I think you said three years—was \$22,868,000.

Mr. FOURNIER: Would you mind repeating the figure for 1951?

Mr. GORDON: In 1951 the total figure was \$56,554,000.

Mr. MACDONNELL: Is it possible for an answer to be given to this question? In the state of your equipment I suppose that there was a lag during the war. Is it possible to ask you to forecast over a period of years what is something of the normal growth? Here we have an average figure of about \$50 million a year for three years. Now, is there any reason to believe that will continue to be the requirement? Are we piling up equipment, are we repairing deficiencies to the extent that we can look forward to less expenditure, or is it the opposite, or are we about even?

Mr. GORDON: We are picking up in the course of about two years a very serious lag in connection with our passenger equipment. That total passenger equipment program is—

Mr. MACDONNELL: What is the value of passenger equipment against freight, roughly?

Mr. GORDON: —is about \$57 million, maybe \$60 million, in the air, so to speak, in the form of passenger equipment ordered, and now in process of being delivered, the first of which will start about the end of this year. We hope that \$60 million will pick up what I will call the backlog to bring our passenger equipment up to a reasonable basis, and it is the plan from year to year to try to keep that on a more regular basis instead of having what was

in the past, a sort of feast or famine. There have been no passenger equipment orders of any consequence placed by the Canadian National Railways since as far back as 1935. That is what I call the backlog, \$60 million which represents an effort to meet the backlog. From 1940, for instance, up to 1950 there was a total expenditure for passenger cars of \$25 million. That represents an average of about \$2½ million a year. Now that only covered a sort of replacement for wrecks and things of that kind. It did not take into account any effort to meet modernization or increased traffic.

Mr. MACDONNELL: That is passenger?

Mr. GORDON: Yes.

Mr. MACDONNELL: Could you give a similar figure for freight equipment?

Mr. GORDON: Yes, in the eleven year period 1940-1950 our freight car equipment expenditures totalled \$148 million.

Mr. MACDONNELL: You mean the value or the purchase price?

Mr. GORDON: That is what we spent, \$148 million. Our grand total in those years covering steam locomotives, freight cars, passenger cars, and other motive power totalled \$223,400,000.

Mr. MACDONNELL: In other words, less than \$25 million a year.

Mr. GORDON: That is right. Less than that—about \$20 million a year.

Mr. MACDONNELL: In the last few years we spent about \$50 million a year?

Mr. GORDON: No, we have got more than that; it would be nearer \$80 million a year.

Mr. MACDONNELL: All right, then. I accept that figure. I think the figures you gave me were, 1951, \$56,554,000; 1952, \$82,025,000; 1950, \$22,868,000. That looks to me like about \$50 million a year.

Mr. GORDON: I see what I have done. I have included 1953 in it. You are quite right, yes. I was really thinking in terms of 1951 because I am thinking of my years, so to speak, 1951, 1952, 1953.

Mr. MACDONNELL: Have you 1953 there?

Mr. GORDON: 1953—that is what we are now discussing. We expect to have to spend on delivered equipment,—no matter when it arose in the matter of years—we expect to have to pay for it about \$89 million this year.

Mr. MACDONNELL: Is it reasonable to expect that within measurable time, two, three or four years, that your purchase of equipment will drop, or will there be all kinds of these new things you will have to have?

Mr. GORDON: I will put it this way. This year will take care of what I have been calling the backlog of equipment—

Mr. FRASER: Which should have been ordered?

Mr. GORDON: —which should have been ordered, if you want to put it that way, and from here on we will try to keep up to date in terms of equipment required for increased traffic or current facilities. It will be a current program. That program will depend on the rate of the economic growth of Canada, increase in the traffic, a new program such as dieselization, or other new requirements which might arise.

Mr. FRASER: Would you include modernizing, in order to get traffic?

Mr. GORDON: Modernizing would be included in that, but what I am trying to say is it would be a current program.

Mr. FOURNIER: Do you have any figures as far as the Canadian Pacific is concerned?

Mr. GORDON: No, I have no Canadian Pacific figures before me. I have quite enough trouble in dealing with my own.

Mr. MACDONNELL: It would be a natural thing for us to want to know.

Mr. GORDON: I think I can get the figures for you. I examined them when I was thinking about it. I can say in a general way that the Canadian Pacific have announced a program which will possibly result in a capital expenditure of \$500 million over the next five year period.

Mr. FOURNIER: What is the figure for the Canadian National?

Mr. GORDON: Whatever this committee, in the goodness of its heart, is prepared to recommend.

Mr. MACDONNELL: You know that we recommend what you recommend in the goodness of our hearts.

Mr. GORDON: I would like to believe that.

Mr. MACDONNELL: Can we ask you to give us a few figures for comparison? It is very natural to compare them with the Canadian Pacific. Do not bother now, but I would suggest tomorrow it would be very interesting.

Mr. GORDON: I was hoping we could pass the budget.

Mr. FOURNIER: If we could get them tonight, it would be better.

Mr. GORDON: I will be prepared to speak to that tomorrow morning, yes.

The CHAIRMAN: The arrangement was that we were not to meet until tomorrow afternoon.

Mr. GORDON: Perhaps I might make this general comment. We are in a different position from the Canadian Pacific. It is a fact that the Canadian National is the development railway of Canada today. We are in the areas of Canada which are expanding rapidly, and because of that fact the provision of services is likely to be much greater, I would think, than in the more settled areas in which the Canadian Pacific Railway runs.

Mr. MACDONNELL: When you give us the figures tomorrow would you give us the figures on development lines of the Canadian National as compared with the Canadian Pacific?

Mr. GORDON: I shall try to do that.

The CHAIRMAN: We are adjourned until 3.30 o'clock tomorrow afternoon.

EVIDENCE

MARCH 25, 1953.

The CHAIRMAN: Gentlemen, we have a quorum. Shall we carry on with the budget?

Mr. MACDONNELL: Mr. Chairman, I have a general question. I believe it is not a controversial one, but I should like to bring it to your attention if you think it is proper to have it discussed? It was discussed in the House of Commons. It is the matter of the personnel of the Board of Directors. If you tell me that I am out of order, I shall stop right here, but I think it is a matter of great importance.

The CHAIRMAN: I do not consider it is out of order.

Mr. MACDONNELL: I would like to make one or two observations. I have two observations to make about the Board of Directors. I do not take directors too seriously. I was once a director myself in a small way and I know that, while directors do not count very much in the operation of a company, they do count a bit. I suggest that in a vast enterprise of this kind there is a special reason. I suggest in particular—although one must not press this too far—that there should be more regard paid to geographical representation than is paid now. I may be wrong, but I think there should be more regard than there is to the factor of geography. That raises the question first of all with respect to the residence of these gentlemen. And there is another question.

I do not happen to know all the directors. I wish to make it clear that I have not a single word of criticism to offer, but the only one of the directors whom I know is Mr. Symington, and he is a man of the widest business experience.

Mr. McLURE: He is the man who made the TCA what it is.

Mr. MACDONNELL: I think that directors are important. First of all consider the Canadian Pacific Railway. In that company you will find a large board of directors. There are two main reasons. First of all, directors are expected to help in getting business. Secondly, there is the fact that in the directors the president can have a sort of reserve experience and judgment to draw upon. I think that is all I need to say. That is my own feeling. I would like Mr. Gordon to say a word about the geographic aspects of the matter and their bearing upon this huge effort which is the biggest railroad in Canada.

The CHAIRMAN: It is certainly the biggest railway in the world.

Mr. MACDONNELL: I am underestimating, Mr. Chairman. I nearly always do.

Hon. Mr. CHEVRIER: I presume what you have in mind, Mr. Macdonnell, is the enlargement of the board of directors because of the enlarged operations of the Canadian National Railways?

Mr. MACDONNELL: That is right.

Hon. Mr. CHEVRIER: Mr. Gordon can speak concerning the qualifications of these gentlemen better than I can because he is in constant consultation with them and meets them each day. I think there is now a pretty good geographical representation. For instance, Mr. Gagnon represents the province of Quebec. Mr. Northey represents the province of Ontario. Mr. Symington was originally from western Canada. Mr. Brenan is from Saint John, New Brunswick, Mr. Parker is from Winnipeg, and Mr. Daly I think is an easterner.

Mr. MACDONNELL: I think you have answered one of my questions which was on distribution. I come back to the question of size.

Hon. Mr. CHEVRIER: That has been considered from time to time. It may be that the time has arrived to enlarge the board of directors, but that is a matter for government policy. That could not be done without an amendment to the present legislation. Any consideration that has been given to it, of course, has been given to it in the light of the matters which were under consideration at the time this came up for discussion along with many other matters concerning the affairs of the Canadian National Railways. I have reference now to the matters touched upon by the Royal Commission on Transportation.

Because of the large number of amendments which had to be brought down to railway matters and particularly to the Railway Act, it has not been deemed advisable to increase the board of directors of the Canadian National Railways. I am not intimating that that is going to be done. What I say is that it is being given consideration and I think at the next or at some subsequent session of parliament it will be necessary to amend some of the Acts, or several of the Acts having to do with the operation of the Canadian National Railways. And it may well be that at that time consideration will be given to the matter of enlarging the board of directors.

Mr. POULIOT: Will you please tell us, Mr. Minister, what the remuneration is of the board of directors?

Hon. Mr. CHEVRIER: It is \$5,000.

Mr. POULIOT: Just that, and travelling expenses when they go on railway business.

Hon. Mr. CHEVRIER: That is right.

Mr. POULIOT: According to the law those gentlemen are the official representatives of the Canadian Government and they form the Canadian National Railways Company.

Hon. Mr. CHEVRIER: They are the official representatives of the people of Canada.

Mr. POULIOT: They are the representatives of the people of Canada and they are appointed by the government, and they are the Canadian National Railway Company.

Hon. Mr. CHEVRIER: That is right.

Mr. POULIOT: And when the company is sued, it is they who are sued in their official capacity, or the corporation of which they are directors?

Hon. Mr. CHEVRIER: They are sued as a corporate entity.

Mr. POULIOT: It is in their capacity that the company is sued, as formed by them?

Hon. Mr. CHEVRIER: They are not sued individually. They are sued corporatively.

Mr. POULIOT: I do not know what is their practical use, but I presume they are very useful. I find they are the link between the government and the Canadian National Railways. Is it not so?

Hon. Mr. CHEVRIER: Yes.

Mr. POULIOT: And if a Member of Parliament writes to a director, let us say, on behalf of a railway employee, or to ask something, is it politically interpreted?

Hon. Mr. CHEVRIER: I think if you are writing to the minister, that is a different thing of course. But if you write to the directors of the Canadian National Railways, it depends a great deal upon the tenor of the contents of your letter. When you ask me a general question like that it is rather difficult for me to answer. But if you were to put a specific question to me, perhaps I could answer it yes or no.

Mr. POULIOT: I will tell you why I ask that. The day before yesterday I listened to Mr. Gordon and he said that sometimes he received letters from parish priests, from mayors, and from citizens of a locality on behalf of this or that person. But he did not mention a member of parliament. I do not see why, because I am a member of parliament, that I should be precluded to write to Mr. Gordon.

Mr. GORDON: No, I did not intend to suggest any such thing. As a matter of fact, we welcome any representations from members of parliament respecting matters affecting their constituencies. We recognize the fact that they represent the people in their constituencies. In fact, we receive a great number of letters from members of parliament which are quite appropriate. If a member of parliament wishes to write me at any time about conditions in his district, or to make a suggestion about what he thinks might be an improvement, or wishes to criticize the services we have to offer, or asks for information about any proper thing in regard to the railway operations, it would be perfectly all right, and I would not construe it as political interference at all.

Mr. BROWNE: Including staff?

Mr. GORDON: Including staff. I receive many letters making representations on behalf of employees and it is perfectly all right. Let us say a clergyman or a member of parliament writes to me and says: "I know that Mr. Jones, one of your employees, has had some bad luck. I find that he has been disciplined, and I would like to intercede and say a word for him".

Mr. POULIOT: He has a large family?

Mr. GORDON: Yes, he has a large family. He always does. You must be thinking of your own constituency. We are only too happy to reply to those letters and give such information as we feel we can, in order to show, with respect to the representations coming from a person, from any person who is taking it up with the management, that we are attempting to be fair. I do not construe that as interference at all.

Mr. BROWNE: Even though it is turned down by the district management?

Mr. GORDON: Quite so. We have many cases where a ruling has been given by the district manager or superintendent. Then some local person, frequently and obviously a member of parliament—because after all he is the representative of public opinion in that district—will write to me or to some other official in the railway and make inquiries about it. I think that is perfectly proper. No criticism can be offered of that at all. It is only when there is an attempt to put pressure upon management improperly that it could be called interference.

Mr. POULIOT: I find your answer very satisfactory and I will tell you why. With all due respect, the other day the chairman quoted things that some important gentleman such as Mr. Arthur Meighen, or Sir Thomas White or Sir George Foster had said. I remember that Mr. Meighen did not exist at the time of my father but my father spoke very contemptuously of Sir George Foster and of Sir Thomas White. I did not find it a doctrine according to my taste. I went to the back history and I found the doctrine of Laurier, and what he said was exactly in accordance with the doctrine of Laurier, that members of parliament should not put out considerations of any type in matters such as that.

Mr. GORDON: Quite so. I can say that in my experience in the railway I have had no example that I could properly quote of there being improper political interference with the railway. The sort of thing that would be improper interference would be for a member of parliament to write to me, let us say, about a staff matter, or about the management of the railway. I would reply explaining what our attitude was. And then if that member said:

"Mr. Gordon, I am going to go over your head and try to get your ruling reversed. I will go to a member of parliament or to the Minister of Transport", or if a member of parliament should come to me and threaten me or try to influence my judgment by threats or activities which would put pressure upon me, that would be improper. But nothing of that sort has ever happened.

Mr. POULIOT: We can speak to you without threatening you.

Mr. GORDON: Absolutely. In fact, you could even threaten me in proper circumstances and I would not regard it as improper.

Mr. POULIOT: Well, I never threaten anybody.

Mr. GORDON: That is quite right.

Mr. GEORGE: Yesterday Mr. Gordon made two statements with regard to labour relations. Now, I have not read the verbatim reports containing those statements, but it seems to me that the substance of it was, firstly, that they were going to assess—that is, the railways were going to assess their labour relations and have a look at the whole scheme again. I believe Mr. Gordon also pointed out that his officials, as well as himself, did not see the labour experts or representatives of unions too often in regard to labour pay, and what have you, except in the case of emergency.

Mr. GORDON: I think there is a misunderstanding and I may save time if I comment on it right now. I was replying to a question by Mr. Macdonnell which had to do with a specific type of expert who calls himself an economist giving evidence before a board of inquiry or board of arbitration. We are in constant touch with representatives of the unions, the chairmen of the various groups in the unions, the regular representatives of the men. We are in touch with them every day of the week. There is a close practical working cooperation with them in which the representatives of labour may be making representations on behalf of the men all the time. We also have a very useful labour-management cooperative committee which meets regularly to discuss such things as working conditions or suggestions for improvements in regard to ordinary facilities and amenities of life.

Mr. GEORGE: That is a day to day affair?

Mr. GORDON: Yes, that is a day to day affair. The person I was referring to yesterday was in the nature of some expert witness or somebody who may have been used by the labour unions to present a particular brief which dealt with highly technical analyses of statistics for presentation to the board as reasons for wage increases, and that man, that sort of individual, we rarely see.

Mr. GEORGE: That is the point I am trying to get at. I am not an expert in labour relations, but in view of what you just said, and what you said yesterday, I was wondering if you considered getting the two groups together, that is, labour and management, under an independent head, such as a labour expert from some of the universities, to have a constant study continually under way of labour relations in regard to increases of pay and the cost of running railways, and so on, so that these sudden emergencies do not come upon us.

Mr. GORDON: That is something along the lines we are trying to study and find a way of achieving. As I said yesterday, when we have properly assessed the whole field and sort of analyzed the reasons for what may be called the deterioration in relations between management and labour, then we might be able to arrange for meetings on a more detailed basis in between these crisis periods. We might develop something of a code of ethics—I referred to it yesterday as a set of Queensbury rules, if you like—with a sort of agreement on both sides of the picture that certain methods of procedure would be agreed upon as being correct. We might discuss some of our

problems before the expiry date of a wage agreement, so that when the expiry date arrives it is not a crisis date, it is simply that we then meet with a fairly clear idea on both sides of the ideas we have between us. We do not know, and neither do they—I am not speaking critically at all,—but under the present procedure neither side knows what the other side wants, thinking only of the time that is specified in the agreement whereby we can notify each other that we are not satisfied or we are satisfied.

Mr. GEORGE: The other point I made, and on which you did not comment—maybe you should not comment on it, but it is my suggestion that if these two groups met, perhaps an independent party, like a labour man from one of the universities, could be chairman.

Mr. GORDON: I would not like to comment on that. I do not know whether it would be practical, but it is something worthy of consideration.

Mr. GILLIS: Mr. Chairman, I would like to ask you if Mr. Gordon got the answer to a couple of questions I asked.

The CHAIRMAN: If I may, just a minute, Mr. Gillis—we have a very heavy agenda for this afternoon and I do not want Mr. George to think I am scolding him, because it is far from it, but I do wish to ask the members of the committee to extend the same cooperation as you always have in the past. Mr. Gordon and his officials are very anxious that we should complete our work today, and as to the part of our work that has already been done, the record will be printed and you will have an opportunity of reading it. Any of you who could not be in attendance when the different items were up in which you are interested can read the record. Please do not bring up now anything that has already been covered unless it is extremely urgent. Now, as to the different questions which have been asked and on which material has been promised, I have discussed with Mr. Gordon and he assures me he has all the answers ready. I think perhaps it would be more convenient to the members and would make a better record if we would deal with those when we have completed our regular work. We are now on page 2 of the budget, and at the second last item. That is the re-financing or financing previously authorized expenditures, and if you do not mind, Mr. Gillis, I would very much—

Mr. GILLIS: I don't mind at all, Mr. Chairman, but I wonder why you have allowed this last half-hour's discussion.

The CHAIRMAN: I should not have allowed it.

Mr. GILLIS: I know that.

The CHAIRMAN: We are now on page 2, the second to the last item. Are there any questions?

Mr. MACDONNELL: I want to understand better the question of re-votes. I have been looking back to the Canadian National Railways' Financing and Guarantee Act, 1952, and I notice in *Hansard*, at page 3356, a statement by Mr. Sinclair, then Parliamentary Assistant to the Minister of Finance, to this effect:

...the law officers of the Crown have ruled that the authority contained in the annual financing and guarantee acts does not expire at the end of the calendar year.

Now, I had understood yesterday that the view taken by the railways is that they did expire and that there has to be a re-vote, or am I confused?

Mr. GORDON: Well, I am not sure that I quite grasp your remarks. I also am guided by the lawyers in respect to the financial authorizations which have to be set up to take care of the figures we are now discussing, and they inform me for the purpose of our financing that in the financing and guarantee act which will go before the House this year it is necessary to include the figures which are shown on page 2 of this budget, and that includes the re-votes—you are speaking of the re-vote figure shown here, of \$35 million?

Mr. MACDONNELL: Yes.

Mr. GORDON: The Budget includes that figure to complete projects previously authorized and which now have to be re-voted in respect to that portion of them which is not complete. There is a distinction between the authorization and the authority to the Minister of Finance, the authority, rather, in the Financing and Guarantee Act for the Canadian National Railways to finance it. What we are discussing here is the Financing and Guarantee Act, which will enable the Canadian National Railways, if it is decided that way, to go to the market and raise money or to go to the Minister of Finance and say to him, "Would you rather lend us the money than have us go to the market at this time?" There are two ways open to us: we have to have authority to borrow—and this is really the authority to borrow—either by way of bonds or advances by the Minister of Finance.

Hon. Mr. CHEVRIER: This year's Act, as I understand it, will carry the same re-votes as last year's Act, which carried re-votes for the previous year of \$93,647,760. It was re-voted in the Canadian National Railways' Financing and Guarantee Act of 1952.

Mr. FULTON: Then the re-votes Mr. Gordon was discussing, that Mr. Gordon gave us an answer about yesterday in answer to my question last night, would be a different type of re-vote. I asked you if you—supposing in your capital item for new equipment here, the capital budget item for new equipment gave you authority to spend \$10 million, but you spend only \$8 million—I asked you if it would be necessary to re-vote \$2 million and you said yes. That would be a different expenditure than the type we are discussing on page 2?

Mr. GORDON: If you look at sheet 2 of the budget, I have an item shown there of \$35,561,634, re-votes under the general heading of capital expenditures.

Mr. MACDONNELL: Perhaps this will help me. Is that figure taken up by the Financing and Guarantee Act which comes along later?

Mr. GORDON: That is it. Then the next figure, this is capital re-votes. The last figure down there is really the re-vote figure for equipment. You see that is authorized pursuant to the Financing and Guarantee Act of 1952, \$36 million. That is the re-vote for equipment which had been previously authorized. We have been authorized to commit ourselves for that, and now we have to finance it this year and that is included in the financial authorization we are now asking.

Mr. MACDONNELL: Then you are not going on the statement that the law officers of the Crown have ruled it does not expire, you are acting on the understanding that it does expire and requires a re-vote?

Mr. GORDON: That is my understanding.

The CHAIRMAN: I think perhaps before you leave that there is a little confusion. Authorization of the commitment does not expire. There is a difference between the authorization of the commitment and the authorization for the spending of the money.

Mr. GORDON: That is the point, Mr. Chairman.

Mr. MACDONNELL: I just want to come back to these figures of the Act of a year ago, because the figure \$202 million—I am just examining that to see whether the commitments are separate. They are commitments as you say?

Mr. GORDON: This upper portion here is to show the figures on which we need authority to spend money this year. Then underneath, the commitments that we are asking for this year are shown in notes Nos. 2 and 3 at the bottom of the page, maybe for next year or the year after.

Mr. MACDONNELL: That is right, there is a paragraph in this section which does authorize commitment. Perhaps I had better show you that. Can you follow through this figure of \$202 million? Those are not commitments, those

are actual. It is the follow through I am after. Will you see if I am right, that those are not commitments?

Mr. GORDON: I can take this statement here and trace it right on the statement here if that will help you.

Mr. MACDONNELL: Yes.

Mr. GORDON: All right. The \$27 million shown here—I am talking about Hansard at page 3356 of June 17, 1952. You will see the \$23,014,271 figure there is shown on your table there. Now, that is last year's figure and there is the comparative figure for this year. If you take this figure here of \$27 million, you will find that on page 1 of the budget, which shows there, and the comparative figure this year is \$12 million. Now, then, we have established that. This branch line construction of \$7,800,000 you will find that there and the comparable figure \$2,758,000 for this year. This \$2,413,000 ordered and paid for in 1952 should be shown right there and that brings you down here. Acquisition securities you will find also on page one, \$516,000 shown last year, this year \$293,000, a small item. Then, additional working capital \$15 million again on page one you will see \$15 million last year and \$15 million this year.

Mr. MACDONNELL: This is working capital?

Mr. GORDON: That is right. It is shown here. That takes care of all the figures here with the exception of the bottom one, except the \$50 million item. There is the foot-note item shown at the bottom of page 2, and this year we are making it \$80 million. I will give you a word of explanation. That \$80 million does not give us any authority that is not contained up above here. It is merely a means to give the Minister of Finance the authority to make us an advance between the period of January 1st, 1954 and June 30, 1954 in connection with items which may have been previously authorized as a commitment but which have to be paid for in that portion of the year before we are able to get our 1954 Financing and Guarantee Act approved.

Mr. MACDONNELL: Would it only effect the orders you have given before. Could it not be used for expenses originating in 1954 itself.

Mr. GORDON: No, it could only be used in regard to commitments. It is a temporary authority to give the Minister of Finance legal power to finance us temporarily, because at this time we only bring the budget here now, and it will come before the House of Commons next month. In the meantime he has not the technical authority. Last year you gave us that authority for \$50 million which we are now working on this year. I am now asking authorization on that figure of \$80,000,000 but it does not add to the overall authority. It is merely a technical means of regularizing the action in regard to authority.

Mr. BROWNE: You said for 1953.

Mr. GORDON: No, 1954. The figure as given in Hansard was last year \$50 million and that covered January 1st to June 30th this year, 1953. Now this year we talk about \$80 million which would cover the same, a similar kind of thing, up to June 30th, 1954.

Mr. BROWNE: That Act was passed in 1953.

Mr. GORDON: No it was not. This one is being passed this year.

Mr. BROWNE: That has based on last year.

Mr. GORDON: That is right.

Mr. BROWNE: Now you are going to pass another this year.

Mr. GORDON: Yes, we are now going to pass another this year which will become effective next year, and that will cover the \$80 million that is covered on the figures shown in that table.

The CHAIRMAN: Now gentlemen—

Mr. MACDONNELL: Footnote 2 says:

"Authority is requested to place order for new equipment contained in the 1953 budget program in the amount of \$3,765,000 (see page 8 (F))."

What is that?

Mr. GORDON: Just turn over the page and you will see page 8(F) which sets out the detail. Note (F) at the bottom. That shows you the portion—you will see that on page 8(F) \$9,959,000. A portion of that is covered in page one and that is the portion we think we will deliver this year, but our total orders would be \$13,724,000 so the difference between a \$9,900,000 and the \$13,724,000 is now being authorized as a commitment because we will not be paying for it until a later year. That covers one portion. The next portion on note 2 is \$54,534,000 which you will find on page 9(G) and specified there is the authorized commitments we are proposing to buy, and which will not be delivered until, we think, 1954. So, I am asking you now to give us authority to commit ourselves to the purchase of the items detailed therein.

Mr. FULTON: That is in 1954.

Mr. GORDON: Yes and next you will find this item of \$54 million, that will be shown in the financial authority for next year. The same thing applies in regard to note 3. This covers general additions and betterments and that is the only difference and you will find that on page 3. That is the commitment portion of that.

Mr. MACDONNELL: The only question I have here is, there is a figure I have noted down, and I do not know where it occurs, saying that the increase in your borrowed capital in the year 1952 was \$97,164,000 and the increase in assets was about \$135 million.

Mr. GORDON: Yes.

Mr. MACDONNELL: Now, would part of that come from the purchase of preferred stock.

Mr. GORDON: Yes, and the rest from depreciation.

The CHAIRMAN: Any further questions on page 2. If there are no further questions on page 2 we have completed the budget. The underlying pages simply deal with details. Pages one and two are the heart of the budget.

Mr. FULTON: I think there is an explanation for page 3, and there is not for additions and betterments.

The CHAIRMAN: All the subsequent pages are simply details and one and two are—

Mr. FULTON: I do not see the additions and betterments.

Mr. GORDON: I see your point Mr. Chairman. You will notice that in the note we have placed here for additions and betterments.

Mr. MACDONNELL: What page is that.

Mr. GORDON: Turn to page 2. That is the one Mr. Fulton was asking about I understand. In the note on page 2 we referred to general additions and betterments and page 3 shows you the detail as to how we arrive at that.

Mr. MACDONNELL: Where do we get that commitment figure.

Mr. GORDON: These two items you see in the summary there, commitments re-voted \$8,153,000 and commitments new funds \$8,252,000 jointly makes the \$16 million and you will notice the next figure there of \$12 million is our present year's figure as shown on page one.

Mr. MACDONNELL: You will tell the Department of Justice they are wrong about this, will you not?

Mr. GORDON: I am beginning to realize it is much wiser not to tell anybody that they are wrong. Life is much more comfortable.

The CHAIRMAN: Shall the budget carry?

Carried.

Mr. GILLIS: Just a minute. You mean this whole thing?

The CHAIRMAN: All the rest is underlying material. Pages one and two are the heart of the budget.

Mr. GILLIS: There are items on here that I want to question.

The CHAIRMAN: Well then, that is all right. Would you please ask your questions.

Mr. GILLIS: It is on page 8. The answers that Mr. Gordon was to give me on the questions I asked yesterday would be relevant to what I am going to say now. But I notice that on page 8 the C.N.R. has quite a program for new diesel equipment in 1953 and 1954. Now, that question of putting diesels on the eastern end of that run from Montreal to Nova Scotia has created quite a controversy. The people in Nova Scotia, the small operators and the provincial government are of the opinion that it is the dieselization program that is taking the market from the small operators. Mr. Gordon yesterday in his analysis of the situation definitely pinned the matter down to cost. He said he would take all the coal from Nova Scotia that could compete within reason with American coal in that area.

The CHAIRMAN: For a substantial number of years.

Mr. GILLIS: That is right, and the figure that he gave was in regard to the cost of American coal versus Nova Scotia coal laid down in Moncton.

Mr. GORDON: These are only two examples.

Mr. GILLIS: That is right. I have a telegram here from the Minister of Mines of the province of Nova Scotia which was sent to Mr. McCulloch and he passed it over to me. The member for Inverness-Richmond, Mr. Carroll, who is not a member of this committee had the same telegram. The minister of mines in Nova Scotia questions your figures and I would like to read the telegram for your benefit. It congratulates Mr. McCulloch on his stand before the committee and states:

Re Gordon's statement relative cost American Sydney coal laid down Moncton at \$12.33 and \$13.04 respectively suggest he can arrive these figures only by using different basis for freight cost. Cost screened coal Sydney \$9.30 freight rate to Moncton \$2.80 total \$12.10. To arrive at \$13.04 he must use an O.C.S. rate of eleven mills. American coal cost at mine \$3.90 freight to border \$4.65 plus duty fifty cents less exchange 20 cents leaves freight rate from border to Moncton \$3.48 for 314.7 miles gives an O.C.S. rate of 5.6 mills as against 11 mills used against Sydney coal. An agreement now exists whereby railway will charge no more than 5 mills which should make freight cost to Moncton \$1.71 added to cost at Sydney \$9.30 should leave laid down cost at Moncton \$11.01 instead of \$13.04 quoted by Gordon. Understand decision to be reached Wednesday on Drummond order.

A. H. McKinnon, Minister of Mines.

Now, if Mr. McKinnon is correct in his figures in this telegram Sydney coal can be laid down—that is from any point in Nova Scotia, and I think he gives right down to Sydney, would make quite a difference in the figures in the area that we were discussing for the small operators.

Even shipping Nova Scotia coal from Sydney to Moncton under the arrangement Mr. McKinnon sets out here could beat your American price by more than \$2 in Moncton. I do not know whether it is correct or not. I would like Mr. Gordon to take a look at that proposition because if he is right in that cost is the only factor than there is not any problem and of course—

Mr. GORDON: You mean no problem on the basis of these figures.

Mr. GILLIS: That is right, and of course if it is the installation of diesels which I think it is—I pressed that yesterday, and Mr. Gordon was going to take a look at it. The answer that Mr. Gordon was to give me today would have some relation to that. I would like to know how fast that market is dropping off.

Mr. GORDON: Perhaps I can deal with the question first. The question you asked yesterday was the tonnage purchased by the Canadian National Railways from the small operators in Nova Scotia laid down at Moncton for 1951 and 1952 that will give you an idea of how fast that market is dropping off.

I have not got the figures yet, so I am not able to answer the question as regarding the coal coming out of specific coal mines laid down in Moncton, but we will get these figures for you, although not for this meeting. I can get in touch with you later.

One of the difficulties arising out of trying to compare any of our costs is that disagreement exists in connection with a five mill per ton mile rate in respect to O.C.S. haul—

Mr. GILLIS: Five mills?

Mr. GORDON: That 5 mills is only the basis for the subvention application. We do not take that. We take our actual O.C.S. cost of haul and the O.C.S. cost of haul varies as you can plainly see from point to point and from mine to mine, and it will also vary on traffic. What our purchasing agents do is that they use the total of our O.C.S. costs as worked out and when they get a quotation on coal from a given mine at the minehead, they apply the O.C.S. cost figure and that gives the laid down cost at the consuming point. That figure is not publicly known and we do not think we can make it publicly known because it confuses other aspects of cost in regard to general freight rates because we do not weight that figure with overhead administrative costs. It is our purpose, and our purchasing agents are under such instructions, to apply that O.C.S. cost figure to the advantage of the Canadian mines wherever possible. We give them all the advantages we can with respect to traffic. What I intended to say yesterday was that when you start off with a minehead cost of \$9.30 in Canada and a minehead cost in the United States of an average of \$4.14 per ton, then they start off with a terrific advantage enabling them to absorb the costs of haulage which ought to be against American coal.

Let me put it this way. If the minehead cost of American coal was anywhere near Canadian coal we would not buy American coal at all, that is providing we could get it from Canada. The only reason American coal becomes competitive at all is because their minehead cost is so low that they start off with a terrific advantage to overcome their natural handicap.

The CHAIRMAN: May I ask a question on a subject I do not know too much about. If the Canadian National Railways accepted the arbitrary O.C.S. rate set down by the coal board would the maritime coal then be used?

Mr. GORDON: It would depend on the circumstances. In some cases the 5 mill rate is higher and in other cases the 5 mill rate is lower than our actual cost. I am getting into a controversial subject, Mr. Minister, perhaps you will guide me.

Hon. Mr. CHEVRIER: I would like to say something on this when the opportunity arises.

Mr. GORDON: I am not sure whether I should get involved in this controversy of O.C.S. rate and subvention rate. The point is it is not a controversy—I was going to say it is a difference of opinion, but perhaps that is the same thing. Our view is that when we buy coal we should deal with our actual cost figures. The Dominion Coal Board is the board I understand charged with trying to help the Canadian coal industry and they take the view that in the interests of simplicity and as the best way to order a subvention formula they have ruled when we apply for a subvention we must use the fixed figure

of 5 mills per ton mile. Now, that has some very peculiar results because in some cases our cost may be below that figure, but we still get the 5 mills per ton. But when our costs tend to run above that figure then you can see the subvention is of no particular advantage to us.

Hon. Mr. CHEVRIER: At this point perhaps in fairness to those members who joined the delegation with the Minister of Mines and myself and to which Mr. Gillis referred in the telegram he read, I should say a word in connection with their representations made at that time. They made a number of representations to myself and my colleagues, Mr. Winters and Mr. Prudham, the main representation being for a delay in the dieselization program of the Canadian National Railways. It was my impression that the consensus of opinion was it was chiefly a social problem in that it affected the miners and the operators rather than a purely Department of Transport problem. However, I did indicate to the members of the delegation that I would communicate with the president of the Canadian National Railways in so far as the delay in the program was concerned but that that was a matter for internal management. In fairness to my colleagues I feel I should say I did communicate those representations to the president of the Canadian National Railways through the officers of the department. Now, there has not been an opportunity for me to discuss the matter more fully with the president of the Canadian National Railways since then. It may be felt that the statement which the president made should be relegated to the delegates directly from the minister, but it was brought about, as the committee knows, from the question which Mr. Gillis asked and the question Mr. McCulloch asked.

Now, during the course of those representations there followed a discussion on the costs of coal, and there was present over and above the Minister of Mines and Technical Surveys, the chairman of the coal board, Mr. Uren, who gave his opinion as to these costs, and there was some difference of opinion as to what these costs were. I know that at the moment Mr. Prudham is giving some consideration to this matter. Of course, the problem can be met by increasing the subsidies. That would not be a matter for Transport; that would be a matter for the Dominion Fuel Board. The problem may also be met in part by a study of the costs, and I understand from Mr. Prudham that he is giving consideration to that now. I am sorry I am not able to give additional information on that and I hesitate to do it because it is not a matter which concerns the Department of Transport; it is a matter which concerns another department. There is another possibility and that is the change in the method of payment and it might be possible to arrive at some relief to these operators and to their miners by that alternative. I do not wish to say more than that because I am talking in a field which is not my own.

Mr. GILLIS: I understand that. The problem properly belongs to the Department of Mines and Technical Surveys and the coal board because that board was set up for the purpose of handling this problem. My reason for bringing it up here today is the Canadian National Railways buy that coal and a good place to talk about it is with Mr. Gordon. But, in the final analysis it belongs to the coal board to iron these things out.

Mr. Chairman, may I be permitted to ask Mr. Gordon another question?

The CHAIRMAN: I do not intend to stop you, but I am wondering if a small subcommittee of this committee could not meet with Mr. Gordon and with you and with the appropriate officers from his organization. Today we have a large group with us and we cannot properly do justice to your problem in my judgment and cover the work we have to cover before six o'clock tonight. Would that meet with your approval?

Hon. Mr. CHEVRIER: I would hesitate, with all deference, to accept that suggestion because already Mr. Prudham has suggested I see him about this matter, and perhaps Mr. Gordon and others.

Mr. GILLIS: I am not going to pursue that subject any further.

The next question I was going to ask was away from this subject altogether.

The CHAIRMAN: Go ahead.

Mr. GILLIS: Yesterday Mr. Gordon informed me in relation to the Canso Causeway they had a program to shift their terminals if and when the time arrives to do that. I have a little brief from the town of Canso—problems beget problems—and they fear the Canso Causeway is going to wipe their town out. I do not want to read this. Mr. Chevrier has seen it. Is there any program on behalf of the Board of Transport Commissioners or the C.N.R. to solve the problem of the 298 people employed there by the railways?

Hon. Mr. CHEVRIER: Yes. When I was at Canso for the opening ceremonies I did see a delegate of the Board of Trade of Canso and with me was Mr. Macdonald, the premier of the province, and they put before me the difficulties in which they would find themselves if and when the causeway was completed, and we then felt that there should be a statement of the problem. In other words, how many people are now employed by the C.N.R. and how many by the Department of Transport and what could be done to take care of these groups. We have made a study and we now know we can take care of a part of these. Unfortunately we cannot take care of them all. We can take care of a number of them on the locks; I have forgotten the number. The C.N.R. can take care of a number of them from both Port Hawkesbury and Mulgrave. We are giving our attention to your problems. Now, I am not suggesting that we can take care of them all, but I can assure my friend that the matter is under study.

Mr. GILLIS: I am quite satisfied with that. I do not expect a final answer on that today.

Hon. Mr. CHEVRIER: There is as you know some time left before this actual dislocation takes place.

Mr. GILLIS: If the matter is under a study by the minister I know I will have a chance to dig that out.

Hon. Mr. CHEVRIER: And we are also reporting to the province of Nova Scotia, because to some extent it is their problem too.

Mr. BROWNE: I have a short question to put to Mr. Gordon arising out of the answer he gave me last night. Can Mr. Gordon tell me if the Canadian National Railway is considering disposing of the Newfoundland Dockyard at St. John's?

Mr. GORDON: Well, if I gave you that impression I certainly did not mean to do so. I answered your question as to whether or not—I thought you asked if it has been under discussion?

Mr. BROWNE: Yes.

Mr. GORDON: We have had a proposal, or at least a request made to us as to whether we would be willing to talk about it. That is as far as we have gone at the moment. I have no authority to dispose of it. It is Crown property. But it is merely at the point that we are to discuss with this other group whether or not we would be willing to make such a recommendation.

Mr. BROWNE: Would the management be willing to meet representatives of the unions to discuss ways of improving the efficiency of the dockyard down there?

Mr. GORDON: Definitely.

Mr. BROWNE: They have been studying it themselves and they showed me a program which they have outlined.

Mr. GORDON: It would be a perfectly proper and normal thing, as I said before, to bring before the labour-management committee any idea which the

employees may have which they feel would be helpful. We would be only too glad to hear them at any time. In the first instance, the best approach, I should say, would be to take it up with the local manager there, Mr. Grayston.

Mr. BROWNE: We have done that already.

Mr. GORDON: Then we will be hearing from him.

Hon. Mr. CHEVRIER: Mr. Grayston is a very remarkable man.

Mr. GORDON: We are only too glad to discuss it.

Mr. FULTON: In your income account you show a substantial increase in government loans over last year of something over \$4 million.

Mr. GORDON: Yes.

Mr. FULTON: While the total figure is not huge, it is \$6,700,000, yet I think the increase is large enough to be a little disturbing, particularly since we have just recently refinanced the capital structure. Why were you able to show a small surplus last year and yet have these borrowings going on?

Mr. GORDON: We are only borrowing for capital account.

The only interest is government interest. It is still going up but that is because at the moment we are borrowing from the government instead of going to the market. Under normal procedure we would go to the market and sell our bonds to the public, and the interest would appear under "Interest to the public". But in the last two years we have been borrowing directly from the Minister of Finance because, for various reasons, the Minister of Finance desires that we do not go to the market. Our bonds carry a government guarantee and we cannot go to the market without the consent of the Minister of Finance.

Mr. FULTON: Your borrowings at the end of this year will be more than twice what they were last year, because the interest has more than doubled?

Mr. GORDON: Yes. In the annual report at page 34 you will see how it appears in our financial statement. That is all in capital account. It shows how we finance our capital. We got from the government \$18,486,540 for the sale of preferred stock under the recapitalization arrangement. We had certain retirements which netted out to \$9,702,206. We borrowed for capital expenditures \$94,586,864; and we retired a debt of \$12,279,932. Therefore our net increase is \$97 million, and the increase in our total capitalization is \$115 million.

Mr. FULTON: It is the interest on borrowings which increases the interest?

Mr. GORDON: That is right.

Mr. MACDONNELL: Mr. Gordon said yesterday that he would give us a few illustrative figures for comparison between the Canadian Pacific and the Canadian National. It seems to me that with the huge investments we are making, which have been explained in a clear manner, it would be of value to us to have some yardstick. We recognize that there are burdens on the Canadian National Railways which they have to carry.

The CHAIRMAN: I intended that that would come at the end, or would you rather have it now?

Mr. MACDONNELL: I thought you were leaving the Canadian National Railways.

The CHAIRMAN: I said that we would take up the clean-up questions after we had gone through the reports and the budgets. I understood that was one of the clean-up questions.

Mr. MACDONNELL: I do not care when we do it.

Hon. Mr. CHEVRIER: Could we get on perhaps to the end?

Mr. MACDONNELL: You mean before we leave the Canadian National Railways finally?

The CHAIRMAN: No. I mean that we would first clean up all the reports and the budgets and then deal with the special questions which had been asked, one at a time. There are some members waiting here who want to ask questions on the report.

Mr. MACDONNELL: Very well.

The CHAIRMAN: Now, the annual report of Canadian National (West Indies) Steamships Limited.

MONTREAL, March 2, 1953.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir:

The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1952.

The operating results for the year compare with those of the previous year as follows:

	1952	1951	Increase	
Operating revenues	\$7,449,247	\$6,808,478	\$ 640,769	9.41%
Operating expenses	7,122,971	6,840,054	282,917	4.13%
Operating profit or loss ..	\$ 326,276	\$ 31,576	\$ 357,852	

Freight revenues amounted to \$5,801,570, showing an improvement of 9.2% due principally to an increase in sugar tonnage carried northbound at higher rates throughout the year, and an increase in general cargo rates southbound. The total tonnage carried in 1952 was 351,930 tons, or 3.4% greater than in the previous year.

Southbound tonnage decreased 11,207 tons, or 8.45%, due mainly to a reduction in the tonnage of flour to Jamaica. Northbound tonnage showed a gain of 22,851 tons or 11.0% due to an increase of 16.4% in sugar traffic.

Passenger revenue increased \$37,346, or 4.5%, reflecting an increase in passenger travel between Canada, the United States and the West Indies, and an increase in inter-island travel.

Charter revenues rose by 21.5% to \$633,661 because of the more favourable charter rates obtained for the non-refrigerated cargo vessels in the early part of 1952.

Operating expenses increased by \$282,917, or 4.1% due to the handling costs on the greater volume of freight tonnage carried and higher vessel operating costs during the year, together with increased lay-up expenses for the two "Lady" vessels out of service and awaiting disposal at the year-end. Sixty-four voyages were completed in 1952, the same number as in 1951.

The operating profit of \$326,276 compared with an operating loss of \$31,576 for 1951. After inclusion of vessel replacement fund earnings of \$145,065, and payment of interest on bonds held by the public and on Government advances, there was an income deficit of \$3,909 compared with an income deficit of

\$466,992 in 1951. It will be noted from the income statement appearing on page 8 that the interest charges on Government advances decreased by \$90,534; this is due to the cancellation, effective 1st January, 1952, of the liability to the Government in respect to the balance of advances to meet deficits incurred during the development period 1929-1934.

The active fleet at the year-end consisted of the following vessels:

		Gross Ton- nage	Dead- weight Ton- nage
<i>Canadian Challenger</i>	Diesel-powered and refrigerated ..	6,745	7,460
<i>Canadian Constructor</i> ...	Diesel-powered and refrigerated ..	6,745	7,460
<i>Canadian Cruiser</i>	Diesel-powered and refrigerated ..	6,745	7,460
<i>Canadian Conqueror</i>	Non-refrigerated	2,930	4,532
<i>Canadian Highlander</i>	Non-refrigerated	2,966	4,532
<i>Canadian Leader</i>	Non-refrigerated	2,930	4,532
<i>Canadian Observer</i>	Non-refrigerated	2,967	4,532
<i>Canadian Victor</i>	Non-refrigerated	2,963	4,532
		<hr/> 34,991	<hr/> 45,040

In accordance with the intention expressed in the previous Annual Report, the *Lady Nelson* and the *Lady Rodney*, being no longer suitable for operation in the Company's service, were withdrawn on completion of the 1952 season, and laid up awaiting disposal. Both vessels were sold in February, 1953, and delivered to the new owners. With the remaining vessels the Company is in a position to offer regular and frequent freight service which can be adjusted to the traffic offering. Attractive passenger accommodation continues to be available on the three motor vessels sailing in the Eastern service, each vessel having cabin space for twelve passengers.

The balance in the Vessel Replacement Fund at the end of the year was \$5,018,229 as compared with \$4,685,337 at the end of 1951, the increase representing depreciation accruals for the year of \$372,392, less an amount of \$39,500 released to meet capital expenditures covering installation of radar equipment on the five non-refrigerated cargo vessels. The interest earnings of the Fund for the year, \$145,065, were released to the general account of the Company to meet current requirements.

The Insurance Fund balance was \$2,354,572 against \$2,046,654 at the end of 1951. After providing for all losses, amounting to \$113,910, the Fund had a surplus of \$377,918 from which was appropriated \$70,000 for payment of income tax for the year.

The Directors again record their appreciation of the loyal and effective services rendered the Company by officers and employees.

For the Board of Directors,

D. GORDON,
President.

BALANCE SHEET AT 31st DECEMBER, 1952

ASSETS		LIABILITIES	
Investments—		Capital Stock—	
Vessels.....	\$9,883,945	Authorized and issued 400 shares of \$100 each.....	\$ 40,000
Less accrued depreciation.....	5,952,174		
	<u>\$3,931,771</u>	Funded Debt—	
Vessel replacement fund.....	5,018,229	25 Year 5% Government of Canada Guaranteed Bonds, maturing March 1, 1955.....	9,400,000
	<u>\$ 8,950,000</u>		
Current Assets—		Government of Canada Advance—	
Cash in banks.....	\$803,898	For working capital.....	150,000
Special deposits.....	4,550		
	<u>\$808,448</u>	Current Liabilities—	
Accounts receivable.....	34,658	Accounts payable.....	\$ 441,405
Freight, passenger and agency balances.....	159,229	Interest matured unpaid.....	4,550
Government of Canada—Due on deficit account.....	3,909	Unmatured interest accrued.....	156,667
Inventories.....	23,377	Income tax liability (estimated).....	70,000
Advance to captains, crews, etc.....	15,004		
Due from insurance and replacement funds.....	221,818		<u>672,622</u>
	<u>1,266,443</u>		
Unadjusted Debits.....	6,179		
Insurance Fund.....	2,354,572	Insurance Reserve.....	2,354,572
Discount on Capital Stock.....	40,000		<u>\$12,617,194</u>
	<u>\$12,617,194</u>		

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited, for the year ended the 31st. December, 1952.

In our opinion, proper books of account have been kept by the Steamships, and the balance sheet at the 31st. December, 1952, and the relative income and profit and loss accounts for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the Steamships.

The above balance sheet and the relative income and profit and loss accounts are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at the 31st. December, 1952, and of the income and expense for the year.

The transactions of the Steamships that have come under our notice have, in our opinion, been within the powers of the Steamships. We are reporting to Parliament in respect of our annual audit.

2nd March, 1953.

GEORGE A. TOUCHE & CO.,
Chartered Accountants

INCOME ACCOUNT

	1952	1951
Operating Revenues		
Freight	\$5,801,570	\$5,312,191
Passenger	869,400	832,054
Miscellaneous	57,168	48,141
Subsidies	87,448	94,649
Charter	633,661	521,443
Total	<u>\$7,449,247</u>	<u>\$6,808,478</u>
Operating Expenses		
Voyage accounts	\$6,394,663	\$6,107,348
Lay-up expenses	46,308	11,978
Depreciation on vessels	372,392	371,699
Management and office expenses	228,105	224,143
Pensions	22,731	1,567
Other expenses	58,772	123,319
Total	<u>\$7,122,971</u>	<u>\$6,840,054</u>
Operating profit or loss	\$ 326,276	\$ 31,576
Vessel replacement fund earnings—Cr.	145,065	130,368
Interest on bonds held by public	470,000	470,000
Interest on Government advances	5,250	95,784
Income deficit	<u>\$ 3,909</u>	<u>\$ 466,992</u>

Note: Income tax provision of \$70,000 for year 1952, has been made from the surplus earnings of the insurance fund.

PROFIT AND LOSS ACCOUNT

At 31st December, 1952

Balance at 31st December, 1951— <i>Deficit</i>	\$3,618,505
Income deficit for the year \$3,909 assumed by the Government of Canada	—
Cancellation of Government of Canada advances for deficits (1929-1934)— <i>Credit</i>	3,618,505
Balance at 31st December, 1952	<u>Nil</u>

The CHAIRMAN: And on page 13 of the budget pamphlet you will find the budget of the Canadian National (West Indies) Steamships Limited.

Mr. KNIGHT: How many vessels have been withdrawn from that trade?

The CHAIRMAN: Mr. Knight moves that we dispense with the reading of the report.

Mr. KNIGHT: I did not move any such thing.

The CHAIRMAN: Well, you started to ask questions and I took it for granted that you would move that we dispense with the reading of the report.

Mr. MACDONALD: I so move, Mr. Chairman.

The CHAIRMAN: It has been moved that we dispense with the reading of the report. All those in favour?

Carried.

Hon. Mr. CHEVRIER: The budget will give you an opportunity to discuss anything you want.

Mr. KNIGHT: I was going to ask Mr. Gordon how many vessels have been withdrawn from this West Indies service?

Mr. GORDON: The two "Lady" ships.

Mr. KNIGHT: And they were sold?

Mr. GORDON: The last two of the "Lady" ships have been sold and are now on their way for delivery to the purchasers for the purpose of carrying pilgrims to Mecca.

Mr. FRASER: That is a very appropriate task for a lady.

Mr. KNIGHT: What was the book value? It says they were sold at more than the book value?

Mr. GORDON: The book value, net, is the ledger value after depreciation. Let me hesitate a moment. The reason I hesitate is that if the boats were still up for sale, there would still be objection because it might affect the market price. But since they are sold, it might make the people who bought them feel that they had made a bad bargain.

Mr. KNIGHT: But it says that they were sold for more than the book value.

Mr. GORDON: The net ledger value of the *Lady Nelson* was \$118,400; and of the *Lady Rodney*, \$109,450, making a total of \$227,850.

Mr. KNIGHT: Are these "Lady" ships of a different type from other ships in your trade, or are they simply given that name on account of their use?

Hon. Mr. CHEVRIER: The "Ladies" were passenger ships.

Mr. GORDON: They were all the same except one which was fitted up with refrigerator space for the purpose of carrying bananas.

The CHAIRMAN: And the sale price was what?

Mr. GORDON: The sale price was \$750,000, and it netted us \$705,000 for the two when it was all through.

Mr. KNIGHT: How many ships are left in that trade now?

Mr. GORDON: Eight ships. That is shown on page 4 of the report as you will see outlined there. The diesel powered ones have accommodation for 12 passengers in each case.

Mr. KNIGHT: The withdrawal of these ships I take it simply means that there was not trade enough to justify their retention?

Mr. GORDON: We found that the operating costs far exceeded any possible revenue.

Mr. KNIGHT: Does the present situation suggest that there will be further reduction in the trade?

Mr. GORDON: Not necessarily. We are at a certain stage in the West Indies trade. The "Lady" ships were handicapped by the fact that they were primarily passenger ships and that they had to run according to a passenger schedule. They had to be in a certain port according to schedule at a certain time for the convenience of passengers. But the rest of the ships are primarily freight ships, and we can go where we can get the traffic and not have to conform to rigid schedules.

Mr. KNIGHT: That is why I asked you if these two ships were of a special type?

Mr. GORDON: They were primarily passenger ships. It is not only the fact that we could not make money with them, but they were just at the point where they would have had to have very expensive overhauls which we did not care to make.

Mr. KNIGHT: I understand there are people in Trinidad who are very concerned what effect the withdrawal of the ships may have on Trinidad. I understand it is not your business to subsidize ghost towns in coal areas and I suppose, equally well, it is not your responsibility here, as head of the company, to subsidize Trinidad. But in our foreign policy I think there is a point that these people may have, namely, that we have a sort of responsibility, and it is a responsibility which comes with leadership. It is that of developing less

privileged areas. I think that the keeping up of that trade would be a good thing for Canada from the point of view of good relations and from the point of view of advertising.

Hon. Mr. CHEVRIER: The whole question is whether it should be kept up at a tremendous loss. Mr. Gordon's point is — and I add this — that TCA now operates into all those places, particularly into Trinidad, and that service has added to the deficit on the "Lady" ship operations. Moreover, the trade agreement with the West Indies, as Mr. Knight knows, has not been carried out to the letter, and that fact has worsened the financial position.

Mr. GORDON: We should remember a little of the history of the "Lady" boats. The "Lady" boats went into operation as a result of the original trade agreement. The "Lady" boats were the means whereby the trade agreement was implemented. Now the effective life of the "Lady" boats in that service has ended and they have served the purpose. I think it was a good investment for Canada because it developed the trade we were trying to develop at the time that agreement was signed.

Mr. BROWNE: When was that?

Mr. GORDON: About 1927 or 1928. The trade has been established, but times have changed. We believe that the service of the "Lady" boats is no longer necessary to retain that trade. There is more than enough shipping now between Canada and the West Indies to take care of the flow of trade between those countries. Furthermore, we have developed diesel and other types of ships in the trade, and our thought is that if we find that the needs of the trade, or the needs of the traffic between that area and Canada call for more ships and on a basis where we can earn dollars, we will certainly put them into service and recommend that we get more ships.

Mr. KNIGHT: Is it your idea that good relationships, which are desirable, have already been established?

Mr. GORDON: That is right. We made a survey to ascertain whether we should replace the "Lady" boats or let them go out of service. And we came to the conclusion that it would not be good business to replace them. There are others standing ready to supply freight ships if that operation proves necessary. There are others who can provide that service, and it seems to be adequate.

Mr. KNIGHT: Would you think that ensuring good relations through the operation of an uneconomic system would balance the lack of economic advantage?

Mr. GORDON: It is a question of degree. There is a point there. But our feeling has been that there was not enough trade to warrant the payment of heavy subsidies on passenger ships, particularly in view of the very satisfactory airplane service offered by TCA.

Mr. KNIGHT: These people feel it would provide the undeveloped areas with facilities. And I think from the point of view of Canadian foreign policy and our responsibility towards developing such under-privileged areas, it might be a good thing. But I wanted particularly to get your opinion on it. I suppose it is more a matter of government policy rather than Canadian National policy.

Mr. GORDON: A great number of the passengers who made use of the "Lady" ships originated in the United States and it did not seem to us to count very much for Canada to make a glamour appeal of the "Lady" ships for the use of United States travellers. The Canadian passenger demand in our opinion is pretty well taken care of by the passenger accommodation which we have available plus airplane travel which is a very good service indeed.

Mr. KNIGHT: I am not suggesting that it should be kept on. I merely wanted to get your opinion on it.

Mr. FULTON: In that connection would you be in a position if not now then perhaps later, by putting it in the mail to the chairman, to give us a list of the passengers you have carried to the West Indies free of charge in 1951 and 1952?

Mr. GORDON: In 1951 and 1952?

Mr. FULTON: Yes.

Mr. GORDON: You mean by name?

Mr. FULTON: Yes.

Mr. BROWNE: There would not be many of them.

Mr. GORDON: They would be very few. I ponder the significance of the question before I say "yes".

Mr. McLURE: One more question. Did the crews of those ships—

The CHAIRMAN: Order, gentlemen, please. Mr. Macdonnell has the floor, but there is so much noise Mr. McLure did not hear.

Mr. GORDON: I do not remember, Mr. Fulton, but if it develops that there were some courtesies extended for traffic reasons, and so forth, I am not too sure it would be in the interests of the company to make that matter public information.

The CHAIRMAN: Would it answer your purpose, Mr. Browne, if the president were to give you the total number?

Mr. BROWNE: It is Mr. Fulton who asked the question.

Mr. FULTON: Well, it would not altogether, Mr. Chairman. I am wondering whether I could put it some other way so that legitimate interests would not be interfered with.

The CHAIRMAN: You can think it over, then, and we will continue in the meantime.

Mr. GORDON: I can say this, that I cannot recall any free passages extended to anyone other than on company account.

Mr. FULTON: Will you have a look at your files then and let me know if there is or if there is not. If there is not, there is no point in my asking for the information, but if there is, perhaps I will have to find some other way of obtaining it.

Mr. MACDONNELL: In your income account you show a credit of \$145,065 which is called vessel replacement fund earnings. Is that connected with the sales?

Mr. GORDON: That is earnings from securities in which the fund is invested. In other words, a depreciation charge against operating expenses is made before replacement, and then we take the cash and invest it in securities, where they are held as a reserve fund.

Mr. MACDONNELL: You spoke about the ledger value of the ships sold and the actual sale price—does that go into earnings?

Mr. GRACEY: It is not in there this year. The transaction was completed in 1953.

Mr. McLURE: Now I suppose I can ask my question. Did the crews of those "Lady" ships belong to the Seafarers' International Union?

Mr. GORDON: I am not sufficiently sure of that to give a positive answer, but I can get information. They did belong to a union, but I do not remember the name of it.

Hon. Mr. CHEVRIER: They belonged to the C.S.U., but they struck and they were later taken over by the S.I.U.

Mr. McLURE: The reason I ask this question is that an effort was made just about the time you were giving up these ships to have the crews of the car ferries join in this union, and, of course, we as a province took objection to that because it would interfere with us and our contract with the federal government. That is the reason I ask this question.

Hon. Mr. CHEVRIER: The answer is yes, I am pretty sure.

Mr. GORDON: Any group of employees may determine who they want as their bargaining agent.

Mr. McLURE: But the crews on the Borden car ferry do not belong to this union?

Mr. GORDON: Not at the present time. They belong to the regular C.B. of R.E. Union.

Mr. McLURE: But there was a movement on foot to have them taken over last fall.

Mr. GORDON: It may have been as a result of the organizers of the S.I.U., I do not know; but we are not free agents in that. We must accept the wishes of the men as to whom their bargaining agent is to be.

Mr. McLURE: The crews of the two ferry ships objected very strongly because it would be detrimental to them.

Mr. GORDON: If the crews of the ferry ships objected, that answers the question, because they are the people who make the decisions. Is that right, Mr. Gillis?

Mr. GILLIS: That is right. It is a difficult province to make that decision in!

The CHAIRMAN: Shall the annual report of the Canadian National (West Indies) Steamships Limited carry?

Carried.

Now we are on the Canadian National (West Indies) Steamships Limited budget.

Mr. Gordon, may I ask you a question. I notice in making provision for income tax you simply provide for income tax on your earned income profit. Are you not responsible for income tax on your capital profit, on the sale of the "Lady" ships at a greater amount than the amount at which they are carried as an asset?

Mr. GORDON: That is a capital gain. There are no income taxes on capital gains in this country.

The CHAIRMAN: I think there is a provision in the Income Tax Act in regard to industry where they sell a machine, for instance,—

Mr. FRASER: And the farmer, too, selling a tractor.

The CHAIRMAN: —at a greater amount than what it is carried at in the inventory.

Mr. GORDON: Well, if that is so, then the income tax people will be after us. There is this, Mr. Chairman, it is a 1953 figure; we will have to deal with it this year. When we come to make up our figures this year, of course, our lawyers will be examining our liability in connection with any of these transactions.

Mr. FULTON: Are you not referring to stock in trade there, Mr. Chairman?

The CHAIRMAN: No, I am referring to equipment, I am afraid this surplus is taxable income.

Mr. GORDON: Mr. Gracey informs me, Mr. Chairman, that particular matter has been discussed with the Income Tax Department and we have their first ruling that it is not a taxable item.

Mr. FRASER: You must have a fine stand-in with them!

The CHAIRMAN: Are there any questions on the budget?

Mr. BROWNE: Yes. I notice in the budget for 1953 it is expected to have a very much lower revenue and expenses. Are these due to the fact that the two ships have been taken out of service?

Mr. GORDON: Yes. The "Lady" boats have been the most expensive.

Mr. BROWNE: They must have been giving a certain service. Do you intend to replace those ships at any time?

Mr. GORDON: We have no immediate intention of providing a service similar to that provided by the "Lady" ships. The service we provide now is a regular service to specified ports, also additional calls to other ports depending on the demands of the traffic.

Mr. BROWNE: How do you find that trade? Is it increasing or declining?

Hon. Mr. CHEVRIER: Decreasing, very substantially. The passengers on the "Lady" ships have been decreasing very rapidly because of the air lines.

Mr. BROWNE: I can understand that, but I am talking about the other ships now.

Hon. Mr. CHEVRIER: I would think so, too.

Mr. BROWNE: I am referring to the trade on the other ships apart from the "Lady" ships.

Mr. GORDON: That is a question, I suppose, of what do you think of the prospects. Is that what you had in mind?

Mr. BROWNE: Yes.

Mr. GORDON: Well, as it stands now, the actual export revenue for January and February, plus that estimated for March, is slightly below the estimate prepared at the end of the year. This is partly due to exports to some of the Colonies falling below last year's figures and the fact that Jamaica is purchasing the bulk of their flour requirements from the United States. That is one element of trade that is falling off.

Now, on the import side we also see a falling off in revenue there because of a drastic reduction in the freight rate on sugar brought about by the depressed charter market. We think there might be some improvement in that over the last part of the year, but at the moment it does not look very promising. Also, in the off season we have been able to charter several of our ships and the charter market this year has been very poor.

Mr. BROWNE: Where do these ships run from, Halifax or Saint John?

Mr. GORDON: Halifax and Montreal in summertime; Halifax in wintertime.

Mr. FRASER: I note there it says additional income tax provision from surplus of insurance fund, last year was \$70,000, and this year, \$144,000. Just what is that?

Mr. GORDON: Mr. Gracey has the accounting information.

Mr. GRACEY: On account of there being a deficit in the operations of vessels last year, it operated to reduce the amount of income tax that was payable on the combined earnings of the vessels and the insurance fund, but this year there is an estimated surplus and, therefore, the whole insurance fund will be taxable.

Mr. FRASER: They will all be taxable then?

Mr. GRACEY: Yes, they were last year, but they are reduced on account of the losses.

The CHAIRMAN: Shall the budget of the Canadian National (West Indies) Steamships Limited carry?

Carried.

Now, I assume the Canadian National Railways Securities Trust report is carried. Mr. Matthews is not with us, and he is the only gentleman who could explain this, as you recall.

Carried.

Mr. GILLIS: It is not controversial.

THE CANADIAN NATIONAL RAILWAYS
SECURITIES TRUST

MONTREAL, 9th February, 1953.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

The Trustees submit herewith their report of the transactions for the calendar year 1952 of the Canadian National Railways Securities Trust, hereinafter referred to as the "Securities Trust", as reconstituted under the provisions of The Canadian National Railways Capital Revision Act, 1952.

The transactions referred to in sections 5 and 13 of the Act are being dealt with as follows:

- (1) The Minister of Finance has transferred to the Canadian National Railway Company the capital stock of the Securities Trust consisting of five million shares with no par value and having a stated value of \$378,518,135.02.
- (2) The collateral securities referred to in section 5 of the Act are in process of being transferred by the Minister of Finance to the Securities Trust. These securities are now reflected in Schedule A.2 of the balance sheet of the Securities Trust.

There were no other transactions during the year affecting the securities held by the Securities Trust.

The Trustees present herewith the balance sheet at 31st December, 1952.

D. GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
BALANCE SHEET AT 31ST DECEMBER, 1952

ASSETS

Claims for Principal of Loans—
Canadian Northern Railway \$ 312,334,805.10
Grand Trunk Railway 118,582,182.33
Grand Trunk Pacific Railway 116,006,599.08
Canadian National Railway Company 96,936,971.75

Claims for Interest on Loans—
Canadian Northern Railway \$ 309,702,897.65
Grand Trunk Railway 103,250,802.95
Grand Trunk Pacific Railway 107,326,622.84
Canadian National Railway Company 54,501,313.57

Transactions of Canadian National Railway System from 1st. January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust. 108,480,697.14

Securities Held—
Collateral Securities—Schedule A.1
Other Securities —Schedule A.2
..... \$1,327,122,892.41

LIABILITIES

Capital Stock Owned by Canadian National Railway Company—
5,000,000 shares of no par value capital stock:—
Stated value at 1st. January, 1952. \$ 378,518,135.02

\$ 643,860,558.26

Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st. January, 1937 ..
..... 948,604,757.39
..... \$1,327,122,892.41

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st. December, 1952.
There have been produced for our inspection the Collateral and Other Securities as set out in Schedules A.1 and A.2 attached hereto.
We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st. December, 1952, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

GEORGE-A. TOUCHE, & CO.,
Chartered Accountants.

9th February, 1953.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding

CANADIAN NORTHERN RAILWAY:		Notes and Collateral Held	
3½% Loan, Chapter 6, 1911.....	\$ 2,396,099.68	None.	Charge is on premises mortgaged October 4, 1911.
4% Loan, Chapter 20, 1914.....	5,294,000.02	None.	
5% Loan, Chapter 4, 1915.....	10,000,000.00	None.	
6% Loan, Chapter 29, 1916.....	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid through subsequent issues of guaranteed securities and loans.....		6% Demand Notes.....	\$ 497,566.80
†6% Loan, Chapter 24, 1917.....	25,000,000.00	6% Demand Notes.....	33,012,414.32
†6% Loan, Vote 110, 1918.....	25,000,000.00	6% Demand Notes.....	27,203,003.65
†6% Loan, Vote 108, 1919.....	35,000,000.00	6% Demand Notes.....	40,031,122.27
†6% Loan, Vote 127, 1920.....	48,611,077.00	6% Demand Notes.....	53,008,779.65
†6% Loan, Vote 126, 1921.....	44,419,806.42	6% Demand Notes.....	50,259,312.47
†6% Loan, Vote 136, 1922.....	42,800,000.00	6% Demand Notes.....	46,691,634.60
6% Loan, War Measures Act, 1918.....	1,887,821.16	6% Demand Note.....	5,700,000.00
†6% Equipment Loan, Chapter 38, 1918.....	56,926,000.82	3½% Debenture Stocks.....	5,109,999.99
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918.....		6% Demand Notes.....	56,858,496.44
†Mortgage covering loans above.....		Miscellaneous Debenture Stock and Debenture	14,097,470.59
Total Canadian Northern.....	\$ 312,334,805.10	Mortgage dated November 16, 1917.....	10,783,564.80
GRAND TRUNK RAILWAY:			
6% Loan, Vote 478, 1920.....	\$ 25,000,000.00	6% Demand Notes.....	\$ 25,479,226.97
6% Loan, Vote 126, 1921.....	55,293,435.18	6% Demand Notes.....	56,646,816.12
6% Loan, Vote 137, 1922.....	23,288,747.15	6% Demand Notes.....	23,288,747.15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000.00	4% Demand Note.....	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans.....		4% G.T.P. Debentures.....	15,000,000.00
Total Grand Trunk.....	\$ 118,582,182.33	4% Debenture Stock.....	60,801,700.00
GRAND TRUNK PACIFIC RAILWAY:		6% 2nd. Mortgage Equipment Bonds.....	1,693,113.33
3% Bonds, Chapter 24, 1913.....	\$ 33,048,000.00	3% 1st. Mortgage Bonds.....	\$ 33,048,000.00
6% Loan, Chapter 4, 1915.....	6,000,000.00	4% Sterling Bonds.....	7,499,952.00
6% Loan, Vote 441, 1916.....	7,081,783.45	Mortgage, June 28, 1916.....	
6% Loan, Vote 444, 1917.....	5,038,053.72	Mortgage, October 18, 1917.....	
6% Loan, Vote 110, 1918.....	7,471,399.93	Mortgage, October 18, 1917.....	
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162.35	Receiver's Certificates.....	53,339,162.74
Interest guaranteed by Government of Canada.....	8,704,662.65	Cremation Certificates, coupons destroyed.....	8,698,170.42
Interest guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536.98	Cremation Certificates, coupons destroyed.....	2,925,723.88
Agreement with Government under Chapter 71, 1903.....		G.T.P. Development Company, Limited, Capital Stock.....	2,999,000.00
Total Grand Trunk Pacific.....	\$ 116,006,599.08		

forward

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding

CANADIAN NATIONAL RAILWAY COMPANY:

6% Loan, Vote 139, 1923.....	\$24,550,000.00	
5% Loan, Vote 137, 1924.....	10,000,000.00	
5% Loan, Vote 377, 1925.....	10,000,000.00	
5% Loan, Vote 372, 126.....	10,000,000.00	
5% Loan, Vote 336, 1929.....	2,932,652.91	
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400.85	
5½% Loans, Chapter 6, 1932.....	11,210,815.56	
Temporary Loan, 1930, repaid through subsequent issues of guaranteed securities and loans.....		

Less: adjustment authorized by the Capital Revision Act,
1937..... *Cr.* 1,666,897.57

Total Canadian National Railway Company..... \$ 96,936,971.75

Total Loans..... \$ 643,860,558.26

Notes and Collateral Held

{ 6% Canadian Northern Demand Note.....	\$12,655,019.57
{ G.T.P. Receiver's Certificates.....	3,313,530.01
{ G.T.P. Interest Coupons (Cremation Certificates).....	1,830,831.96
{ 5% Canadian Northern Demand Note.....	1,318,315.86
{ G.T.P. Receiver's Certificates.....	4,691,173.58
{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,822.24
{ 5% Canadian Northern Demand Note.....	9,496,718.21
{ G.T.P. Receiver's Certificates.....	1,422,425.17
{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,802.80
{ 5% Canadian Northern Demand Note.....	9,062,624.30
{ G.T.P. Receiver's Certificates.....	364,898.78
{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,880.56
5% Canadian National Railway Company Demand Notes....	2,932,652.91
5% and 5½% Canadian National Railway Company Demand Notes.....	29,910,400.85
5½% Canadian National Railway Company Demand Notes..	11,210,815.56
166,877 6376 shares of Capital Stock of Grand Trunk Western Railroad Company.....	4,171,940.94
5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc., due January 1, 1960.....	8,609,000.00

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of The Canadian National Railways Capital Revision Act, 1952

DESCRIPTION OF ISSUE	Amount	
	Sterling Currency	Dollar Currency
Canada Atlantic Rly. Co. 4% Consolidated First Mortgage Sterling Bonds, due Jan. 1, 1955.....	£1,245,300	
Canadian National Rly. Co. 4½% Twenty Year Guaranteed Bonds, due September 1, 1951.....		\$ 1,978,000.00
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due June 15, 1955.....		1,504,000.00
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due Feb. 1, 1956.....		2,632,000.00
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957.....		864,000.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due July 1, 1969.....		3,317,000.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due Oct. 1, 1969.....		2,271,500.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due Feb. 1, 1970.....		662,000.00
Canadian National Rly. Co. 2% 1927 Guaranteed Debenture Stock.....	3,813,250	
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960.....	534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	6,294,345	
Canadian Northern Ontario Rly. Co. 4% Perpetual Consolidated Debenture Stock.....	1,609,832	
Canadian Northern Pacific Rly. Co. 4% First Mortgage Guaranteed Debenture Stock, due April 2, 1950.....	3,208,545	
Canadian Northern Pacific Rly. Co. 4½% First Mortgage Terminal Debenture Stock, due April 2, 1950.....	1,533,131	
Canadian Northern Quebec Rly. Co. 4% Perpetual Guaranteed Debenture Stock.....	983,183	
Canadian Northern Rly. Co. 6½% Twenty-five Year S.F. Debenture Bonds, due July 1, 1946.....		145,000.00
Canadian Northern Rly. Co. 3% First Mortgage Debenture Stock, due July 10, 1953.....	1,684,362	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		508,666.00
Canadian Northern Rly. Co. 4% Perpetual Consolidated Debenture Stock.....	8,414,402	
Canadian Northern Western Rly. Co. 4½% First Mortgage Debenture Stock, due Oct. 22, 1943.....	187,937	
Canadian Northern Western Rly. Co. 4½% First Mortgage Debenture Bonds, due Oct. 22, 1943.....		6,000.00
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "A" (Prairie Section), due April 1, 1955.....	1,364,500	
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "B" (Mountain Section), due April 1, 1955.....	1,402,900	
Grand Trunk Pacific Rly. Co. 4% First Mortgage L. S. Branch Sterling Bonds, due April 1, 1955.....	1,107,200	
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900	
Grand Trunk Rly. Co. of Canada 5% Perpetual Borrowed Capital Debenture Stock.....	3,967,602	
Grand Trunk Rly. Co. of Canada 4% Perpetual Consolidated Debenture Stock.....	23,401,438	
Grand Trunk Rly. Co. of Canada 4% Perpetual Guaranteed Stock.....	12,500,000	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....		1,293,500.00
Great Western Rly. Co. of Canada 5% Perpetual Borrowed Capital Debenture Stock and Bonds.....	2,548,750	
Northern Rly. Co. of Canada (G.T. Rly. Co. of Canada) 4% Perpetual Debenture Stock.....	302,573	
Northern Rly. Co. of Canada 6% Perpetual Third Preferential Bonds..	14,400	
Quebec & Lake St. John Rly. Co. 4% First Mortgage Perpetual Debenture Stock.....	815,170	
St. John & Quebec Rly. Co. 4% First Mortgage Debenture Stock, due June 1, 1962.....	432,600	
Wellington, Grey & Bruce Rly. Co. 7% First Mortgage Bonds, due July 1, 1891—Extended.....	6,100	

Mr. GORDON: May I make a comment on this. This is a purely formal matter and following the Recapitalization Act placing this in the ownership of the Canadian National Railways, I personally do not see much use in presenting this report. However, it is a fact that it is required by law and I would ask the opinion of the committee if, in order to save some small expense in the printing of this, that they believe they would be satisfied if we produced this just in the form of a stencil copy, perhaps, and restrict its distribution, so that we cover only the formal requirements of the law.

The CHAIRMAN: Mr. Gillis so moves.

Agreed.

Mr. BROWNE: I wonder if the Canadian National Railways report could be a little more expanded than it is? Could we not have more information on various points?

Mr. GORDON: Expanded?

Mr. BROWNE: This is a big undertaking, an undertaking of some \$670 million a year, and it seems to be a very small report.

Mr. GORDON: I must say I thought I heard everything. We are perfectly willing to give the committee and the members all the information possible, but I had thought that last year, in fact the suggestion was, that the report was much too long.

Hon. Mr. CHEVRIER: You are referring to the annual report?

Mr. BROWNE: Yes.

Mr. GORDON: You feel that it is not long enough?

Mr. BROWNE: I think it is not as long as that of the Department of Transport here.

The CHAIRMAN: Mr. Browne, in checking the minutes of evidence, I would suggest you would correct the figure which you just gave as the total assets of the Canadian National Railways.

Mr. BROWNE: I did not say assets, I said expenditures and revenue run into some \$600 million a year.

Mr. GORDON: Yes, our operating revenues run close to \$700 million a year, plus our capital expenditures.

The CHAIRMAN: Mr. Gordon, we have completed the formal part. Would you care to go into the special questions and answers?

Mr. KNIGHT: Does Mr. Gordon want a recommendation from this committee?

The CHAIRMAN: It has been moved and carried.

Mr. KNIGHT: It was done pretty fast then.

The CHAIRMAN: We will take the auditors' report next. Mr. Fraser moves we dispense with the reading of the report. All those in favour?

Hon. MEMBERS: Aye.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
LEWIS BUILDING
465 St. John Street
Montreal 1

5TH MARCH, 1953.

CANADIAN NATIONAL RAILWAY SYSTEM

The Honourable the Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1952 under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income Account and certification thereof.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

THE CANADIAN NATIONAL RAILWAYS CAPITAL REVISION ACT, 1952

In previous reports, we have called attention, amongst other matters, to the disproportionate ratio of fixed charges to operating revenues in comparison with other railways in North America, and also to the desirability of a uniform system of accounting for Canadian railroads.

Under date, the 4th July, 1952, Royal Assent was given to The Canadian National Railways Capital Revision Act, 1952, an act to revise the capital structure of the Canadian National Railway Company, and to provide for certain other financial matters. The Consolidated Balance Sheet at the 31st December, 1952 gives effect to the revision of the capital structure, and the reduction of interest payable to the Government of Canada through the exchange of interest-bearing debt for Preferred Stock is reflected in the Consolidated Income Account.

In compliance with Section 6 of the Act, the Minister of Finance purchased during the year from the Company at par 18,486,540 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the system for the eleven months ended the 30th November, 1952. 1,770,042 additional preferred shares were purchased in January 1953, of a par value equivalent to three per cent of the gross operating revenues for the month of December.

CONSOLIDATED INCOME ACCOUNT

Depreciation and Maintenance

In respect of "depreciable" fixed properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—provision for depreciation, at rates resulting in a composite rate of approximately 1.5%, has been made during the year for the United States Lines of the System through the appropriate maintenance accounts in accordance with the above mentioned Order whereas the Canadian Lines have taken up through the maintenance accounts provided therefor the loss of service value at the time of replacement or retirement.

Track structure composed of ties, rails, track material and ballast is not classified by the Interstate Commerce Commission as an asset for which provision for depreciation should be made; accordingly the loss of service value was taken up through Maintenance of Way and Structures accounts at the time of replacement or retirement on both the Canadian and United States Lines of the System.

Provision for depreciation has been made for the equipment of both the Canadian and United States Lines of the System. The $3\frac{1}{4}\%$ annual depreciation rate used for rail equipment of the Canadian Lines was approximately the same as the latest available composite of the rates used by Class I Railroads in the United States.

In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the maintenance accounts as a whole included the cost of day-to-day repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

We have received certificates from the responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such physical retirements, which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the Accounting Department.

The Royal Commission on Transportation recommended that the Board of Transport Commissioners be empowered and directed to prescribe as soon as practicable the classes of property for which depreciation may properly be charged in the rail accounts of all railways subject to its jurisdiction, and the rate or rates to be charged in respect to each class. This recommendation, which was embodied in the amendments to the Railway Act dated 30th November, 1951, is still under study by the Board of Transport Commissioners.

Insurance Fund Operations

On the 15th July, 1952, the main lodge at Jasper Park was destroyed by fire and as the special contribution by the railway to the Insurance Fund of \$500,000 was not sufficient to replace the cash withdrawn to cover this loss amounting to \$1,257,000, the Fund was reduced during the year, and at the year end amounted to \$12,843,000. This constitutes a change in policy, as in prior years, to the extent necessary to avoid diminution of the fund, reimbursement for losses has usually been made by the railway in the year in which they occurred. The change in policy, as authorized by the Board of Directors, is in our opinion, warranted, and we approve the procedure that has been followed in the year under review. We have noted that it is the company's intention to transfer annually to the fund the sum of \$500,000 (or such lesser final sum as might be necessary) to increase the fund to the objective of \$15,000,000.

Pension Expense

The cost for the year amounted to \$20,070,000, an increase of \$7,473,000 over the previous year. This increase results mainly from the introductory cost arising through the revision of The Canadian National Railways Pension Plan effective the 1st January, 1952, by which increased benefits were provided.

CONSOLIDATED BALANCE SHEET

Assets

Against the Corporate portion of the property investment brought into the National System accounts at the 1st. January, 1923, there have been properly applied the reductions authorized by The Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st. January, 1923, the additions and betterments less retirements of the System have been shown on the general basis of cost.

The several special funds including Capital and Other Reserve Funds, Insurance Fund and Pension Fund, amounting in total to \$90,376,000 are represented by investments in the securities of the Government of Canada, the National System and securities of or guaranteed by the provinces, together with cash and sundry current assets. At the year end, System securities included in these special funds aggregated \$15,551,000 of which par value \$11,573,000 is covered by the guarantee of the Government of Canada. These securities were valued at par. Securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to \$69,417,000 were based on cost which exceeded the market value by 7.05 per cent.

Investments in Affiliated Companies are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. The amount appearing on the Balance Sheet under this heading is after deduction of deposits with the Railway by the Trans-Canada Air Lines totalling \$13,500,000. The Financial Statements issued by the Companies representing the larger investments other than the Trans-Canada Air Lines indicated that profits aggregated some \$1,595,000 and losses some \$145,000 for the year 1952.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and are valued at or below cost. The balance is represented by securities of the Government of Canada and the National System (Government Guaranteed), the book figure of which is based on cost for Government bonds and par for securities of the National System. The cost of the securities of the Government of Canada included therein exceeded the market value by 5.74 per cent.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual debtors and creditors.

No physical inventory of Material and Supplies was taken by the Railway during the year. These inventories at the 31st. December, 1952, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete

and scrap materials after making reasonable allowances for condition thereof and are supported by perpetual inventory records and periodic internal audit tests.

Other Deferred Assets consist principally of Contracts Receivable in connection with land sales and sundry deferred accounts collectible.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Liabilities

Current Liabilities include an amount of \$13,956,000 payable to the Government of Canada. This amount is comprised of (a) \$11,500,000 received in March, 1952, under authority of Section 9 of Canadian National Railways Financing and Guarantee Act, 1951, (b) \$2,314,000 interest payable on loans from the Government, and (c) \$142,000 dividend payable on Preferred Stock in respect of surplus earnings for the year.

Subsequent to the year end, settlement was reached with the Brotherhood of Railroad Firemen, and there was agreement in principle with the Brotherhood of Railroad Trainmen resulting in wage increases retroactive to the 1st. April, 1952, which have not been given effect to in the accounts under review. The estimated liability of approximately \$4,500,000 in this regard for the nine months to the 31st. December, 1952, has been charged to railway operating expenses in 1953.

Other Deferred Liabilities consist principally of the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec, together with the percentages retained from contractors pending completion of work in progress.

Reserves and Unadjusted Credits

Accrued depreciation on Canadian Lines equipment amounts to \$171,768,000. During the year the full ledger value of equipment retired, less salvage, was charged to this reserve.

The balance of the reserve for amortization of defence projects created during the years 1941 to 1945 inclusive amounting to \$3,051,000 has been credited to operating expenses, it being considered that the need for maintaining this reserve no longer exists.

Unadjusted Credits include the estimated proportion of prepaid revenues on freight in transit; excess of actual revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows:—

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the former par of \$4.86 $\frac{2}{3}$ to the pound.
- (c) French Currency—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 359 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.

Chartered Accountants

LEWIS BUILDING

465 St. John Street

Montreal 1

3rd March, 1953.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The Honourable The Minister of Transport,

Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended the 31st December, 1952, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the Balance Sheet and the Income and Profit and Loss Accounts and certification thereof.

INCOME ACCOUNT

Provision for depreciation on vessels was made during the year on the following bases:

- (a) The three diesel powered and refrigerated vessels—5 per cent;
- (b) The two "Lady" vessels and the five non-refrigerated vessels—3 per cent.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the accounting department.

BALANCE SHEET

Assets

Investment in vessels is carried on the general basis of cost less accrued depreciation. The *Lady Nelson* and the *Lady Rodney* were withdrawn from service late in 1952 and at the year end were awaiting disposal. Subsequent thereto they have been sold at prices substantially in excess of their net book value.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Province of Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was 7.94 per cent less than cost.

The Insurance Fund increased during the year by \$308,000, after charging surplus earnings thereof for the year with a provision of \$70,000 for income tax. The insurance risks on all ships are carried in the Fund.

Discount on capital stock represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the Steamships' bonds.

Under authority of Appropriation Act No. 2, 1952, Government of Canada advances for deficits amounting to \$3,619,000 have been cancelled, effective the 1st January, 1952. The consequent reduction in interest payable to the Government is reflected in the Income Account.

(a) United States Currency
—at the dollar par of exchange.

(b) Other Foreign Currencies
—at the current rates.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Now, if members will turn to the three votes—vote 467, Prince Edward Island car ferry and terminals' deficit.

No. of Vote	Service	De- tails on Page No.	1953-54	1952-53	Compared with Estimates of 1952-53	
					Increase	Decrease
467	Prince Edward Island Car Ferry and Terminals— To provide for the payment during the fiscal year 1953-54 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1953.....	530	\$ 1,459,000	\$ 1,485,000	\$	\$ 26,000

The CHAIRMAN: Mr. McLure has the floor if he wishes to say anything.

Mr. McLURE: It is a federal service.

The CHAIRMAN: Vote 467, Prince Edward Island car ferry terminals.

Mr. McLURE: It does not appear there as a deficit, does it? I am always opposed to that because it is not a deficit it is a service, and I see they are getting a little nearer to it now. They have nearly wiped out the word deficit. It occurs only in about one place, and I want that eventually wiped out.

The CHAIRMAN: You will notice the deficit is reduced by \$26,000.

Mr. McLURE: I think if we were having the right returns for the service it would be reduced a great deal more. For instance, it is a great accommodation to the Canadian National Railways for which they do not pay a nickel at all, and we only get a very small credit. For instance, take a carload of potatoes going over and we only get a credit of about \$2, and there are thousands of empties and we do not get credit at all on them and we never get any statement in regard to them. Probably it is my own fault, I do not demand it from the Minister of Transport.

Hon. Mr. CHEVRIER: You do ask questions in the House now and again.

The CHAIRMAN: I think you have that nicely on the record this time.

Mr. McLURE: I will give credit to the minister and I will take a little credit myself that between the both of us we have got the reefer car situation pretty well handled, and with this new 500 which are ordered by the Canadian National Railway, I think we have already a few of these, and when the balance are made I think we will have all our difficulties with regard to reefer cars absolutely settled.

The CHAIRMAN: Vote 467.

Carried.

The CHAIRMAN: Vote 471—North Sydney, Nova Scotia—Port-aux-Basques, Newfoundland, ferry and terminals.

No. of Vote	Service	De- tails on Page No.	1953-54	1952-53	Compared with Estimates of 1952-53	
					Increase	Decrease
471	To provide for the payment during the fiscal year 1953-54 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in the payment of the deficit (certified by the auditors of the National Company) in the operation of the North Sydney, Nova Scotia—Port-aux-Basques, Newfoundland, Ferry and Terminals arising in the calendar year 1953.....	530	\$ 1,870,000	\$ 1,870,000	\$ 1,870,000	\$

Mr. GILLIS: Under consideration—

Mr. BROWNE: When do you expect to have the terminals at North Sydney finished and the one at Port-aux-Basques?

Hon. Mr. CHEVRIER: The North Sydney one is almost complete now, it will be completed in 1953 and Port-aux-Basques in June, 1954.

The CHAIRMAN: Shall 471 carry?

Carried.

Vote 476, Maritime Freight Rates Act, for payment on 20 per cent reduction to Canadian National Railway and our railways operating in territory fixed by the Act.

No. of Vote	Service	De- tails on Page No.	1953-54	1952-53	Compared with Estimates of 1952-53	
					Increase	Decrease
476	Maritime Freight Rates Act— For the payment to the Rail- way Companies operating in the select territory desig- nated by the Act, during the fiscal year 1953-54, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Cana- dian National Railway Com- pany and approved by Aud- itors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Com- missioners for Canada) on all traffic moved during the calendar year 1953 (Chap. 79, Statutes of 1927, as amended) <i>Appropriation not required for 1953-54.</i>		\$	\$	\$	\$
		532	10,453,000	9,910,000	543,000	
		532	.....	734,000	.....	734,000
			31,682,415	22,817,700	8,864,715	

The CHAIRMAN: Vote 476 carried?

Carried.

The CHAIRMAN: Now, Mr. Gordon, special questions and answers.

Mr. GORDON: I have a record of the questions asked, Mr. Chairman. Mr. Pouliot asked the total amount spent on rehabilitation of the Temiscouata line. Up to December 31, 1952, the total was \$947,677.13, of which \$423,325 was charged to capital. Total estimated for 1953 \$678,222 of which \$374,912 is to be charged to capital. Total authorized capital cost of the rehabilitation of the line has been set at \$1,069,555.

Mr. BROWNE: How many miles are there of railways?

Mr. GORDON: The line runs from Rivière du Loup to Edmundston and the branch line from Edmundston to Conners in New Brunswick and the total is 112.8 which includes running rights over our line of 11.9 miles.

Now the next question was by Mr. Thomas which I have recorded. "Please let me have a breakdown Canada and U.S. of various types of cars being manufactured—for example baggage cars, sleeping cars, coaches etcetera."

Perhaps if I can read it hastily I can give it to the reporter, or are you content to have it on the record.

Mr. THOMAS: Yes.

Mr. GORDON:

	In Canada	In U.S.A.
	(On order as at March 18, 1953)	
Baggage cars	118	nil
Sleeping cars	nil	104
Coaches	161	5 (For G.T.W.)*
Parlor cars	nil	17
Diners	nil	20
Mail and express	5	nil
	<hr/> 284	<hr/> 146

* Grand Trunk Western Railroad—Subsidiary of C.N.R.

Hon. Mr. CHEVRIER: The total in Canada is 284 units and in the United States 146 and the breakdown is contained in this table.

Mr. FRASER: Does it give the dollars?

Hon. Mr. CHEVRIER: No, because it was not asked for.

Mr. GORDON: Mr. Knight. Is he here?

The CHAIRMAN: He assured me that if it was placed on the record he would be content. He asked for the freight rates on motor vehicles originating in the U.K.

Mr. GORDON: The reason for our decision to reduce the domestic rates in this case is a competitive one. In other words to meet what the traffic will bear. In other words rates on automobile traffic are dictated by competitive conditions largely arising through truck competition which is non existent in relation to automobiles imported from other countries.

Mr. DINGLE: I have an answer here to a question asked by Mr. McLure in regard to Prince Edward Island diesel operations.

Based on 1952 traffic, economies effected by reason of diesel operation versus steam power, amounted to approximately \$235,000 or a return on investment of just over 13 per cent.

Mr. GORDON: I have a question here from Mr. Browne in regard to Newfoundland which I am not able to answer in the form asked. I have the answers to all these questions and the last one I extracted from notes, but in Newfoundland the situation is much more difficult, and I do not know how to answer it on the basis asked. We do not make up our figures on the basis that would permit of that answer. You see the difficulty Mr. Browne. To answer your question would require a very complicated economic analysis having to do with the origin of the traffic both ways, and we would have to set up pro rates covering the mileage portion of inbound and outbound traffic that apply to Newfoundland.

Mr. BROWNE: You are thinking of the question on the order paper.

Mr. GORDON: Yes, it is similar to that. I can tell you this. The direct expenditure in Newfoundland is a readily ascertainable figure and I could give you that but that would not cover any portion of the pro rata expenditure for headquarters costs including the president's salary if you will, and he does give Newfoundland some attention. If we were to get a fair figure applicable to Newfoundland we would have to analyse that and pro rate it as between several provinces, but it is such a complicated job that we have never attempted to do it.

Mr. BROWNE: You have the amount of actual expenditure on there?

Mr. GORDON: Yes we have.

Mr. BROWNE: Could you give me that.

Mr. GORDON: I am prepared to give you that with the qualification I have stated that it does not represent the true cost of the Newfoundland operations. The expenditure in Newfoundland on that basis is \$20,081,000 for the year 1952.

Mr. BROWNE: That does not include capital expenditure?

Mr. GORDON: That covers only operating expenditure. Capital expenditure for 1952 was \$2,631,000.

Mr. BROWNE: That \$20 million must include a lot of re-grading and re-railing and things like that.

Mr. GORDON: The capital expenditure that I gave of \$2,631,000 is for equipment only. I have not the figure covering additions and betterments.

Mr. BROWNE: What does the \$20 million include?

Mr. GORDON: Operating expenditure including maintenance of equipment, cost of transportation, running of railways and miscellaneous items.

Mr. BROWNE: Does it include widening the roads?

Mr. GORDON: What do you mean by widening the roads?

Mr. BROWNE: I notice on the west coast they have been widened considerably.

Mr. DINGLE: Bank widening.

Mr. BROWNE: Yes—the bed has been widened.

Mr. GORDON: That is why it is difficult to give the figures because under the accounting practice we have to determine in respect of each piece of work what portion is capital and what portion is maintenance. Suppose we replace something worn out; we might have to consider what is the capital content of that and what is the normal maintenance cost. If we replace a particular part of the road with something better then it is shown in part as capital, but if we do not so replace it, then it would have had maintenance in that year anyway. These things are figured out and are entered in that way.

Mr. BROWNE: That is what I mean. That is why we should have a more extended report because we do not know where we can get the information about Newfoundland so that we can see what is going on there. That is why I asked the question.

Mr. GORDON: We cannot undertake the expensive and almost endless analysis of breaking down the figures applicable to any particular section of the country. If we did that for Newfoundland we would have to do the same thing for the province of Ontario.

Mr. BROWNE: It is easy there.

Mr. GORDON: If we were to try to treat Newfoundland as an entity we would get into endless trouble.

Mr. BROWNE: But you can produce a regional deficit.

Mr. GORDON: Yes, you produce a regional deficit but regional deficits or surpluses lead to endless analysis and accomplish nothing. We can only give the figures for Canada as a whole. If we try to break down any region we would get into endless accounting difficulties.

Hon. Mr. CHEVRIER: The details over and above the \$20 million for operating expenditure in Newfoundland for the year as you have explained, are on capital account.

Mr. GORDON: That is right. Additions and betterments, rails, hotels and so forth. That is all you want.

Mr. BROWNE: Yes.

Mr. GORDON: If you take our total expenditure and estimate it for 1952 that part which is charged to additions and betterments is \$2,823,000.

Mr. BROWNE: Is it in the \$20 million?

Mr. GORDON: It is capital. The \$20 million I gave you is operating only. The capital cost for new equipment specifically for Newfoundland is \$2,631,000.

Mr. BROWNE: Excuse me, are these actual expenditures in 1952?

Mr. GORDON: Yes. Now, to embellish the point, I made before as to why I could not give regional figures, it so happens as a matter of accident I can identify Newfoundland equipment, because it is narrow gauge and cannot be used elsewhere. I could not identify such equipment for any other province. I cannot identify it for Prince Edward Island as we take cars there and bring them back, but I have the figure for Newfoundland.

Mr. BROWNE: Do you get the revenue?

Mr. GORDON: No, I am not prepared to give the revenue. It is on pro rates.

The CHAIRMAN: It is obviously interlocking.

Mr. GORDON: We could give you the revenue for Newfoundland if we took only the cash we collected in Newfoundland, but that would not be fair because a shipper ships from Toronto to Newfoundland and we collect the cash for that shipment in Toronto and it would naturally appear on Toronto accounts, but a portion of the whole is Newfoundland's.

Mr. BROWNE: I understand that point. I had not thought of that before. How do you figure out the value for the service given to Newfoundland compared with the returns you get?

The CHAIRMAN: Mr. Browne, I do not want to unfairly interrupt you but we still have Mr. Macdonnell's question which is in my opinion a very important one.

Mr. BROWNE: That is very important.

The CHAIRMAN: Just bear with me for a moment. I would suggest Mr. Gordon has already answered this very same question, indicating just what information he can give and what information he cannot give on the question asked by Mr. McLure a year ago. You will find it in the minutes of the committee.

Mr. BROWNE: I am not interested in the question he asked.

The CHAIRMAN: The question was exactly the same as yours. He wanted a breakdown of the revenue earned and of the operating cost in Prince Edward Island. He felt that was a separate island and it could be done. But for the reasons given by Mr. Gordon with the accounting system the railway has and the fact that the comparison does not start and stop at Newfoundland, it is impossible. If you will be good enough to read that it is printed and I will see that you get it.

Mr. BROWNE: I want to know how he can say whether the operations there are profitable or that he is losing money?

Mr. GORDON: On the basis of last year's figures we figure the deficits in operation in Newfoundland were over \$5 million.

Mr. BROWNE: That includes everything you could credit it with?

Mr. GORDON: The minute you start to challenge that figure you have to start making qualifications. If you say to me, "If you are to haul from Vancouver through Canada to Newfoundland what portion do you include", I would say "a portion"; but some would say "if it were not for Newfoundland you would not have any haul." If you say why don't you give more of the Canadian picture you get into an argument on it. On the bare figures we show a deficit in our operations in Newfoundland of over \$5 million in a year.

Mr. BROWNE: Where are those figures?

Mr. GORDON: They are included in the system figures. There is no regional breakdown. We show them in the general income.

Mr. BROWNE: You have no figures for the regions?

Mr. GORDON: No figures of the kind you are trying to get.

The CHAIRMAN: Have you the answer to Mr. Macdonnell's question regarding the C.P.R.?

Mr. GORDON: The only record we have of those figures are from the published accounts. The only figures brought to my attention about this capital program is that they have estimated an annual expenditure over a five year period of an average of \$95 million a year.

Mr. MACDONNELL: What are their assets as compared to yours.

Mr. GORDON: The total assets shown as of December 31st, 1951, are \$1,860,037,600.

Mr. FULTON: \$2,493,000.

Mr. GORDON: \$2,768 millions in our case. But I am giving you 1952. Their case is 1951.

Mr. MACDONNELL: Before we pass on I have a point of privilege I wish to raise. I wish to make one comment. I think it is in the highest degree unfortunate that this committee has taken the position that in respect of the Pitt-Fort Garry incident, which ended in a state of confusion, the people of Canada should not have been allowed to have all the relevant facts. Everyone believes that there were facts in the two letters from Mr. Pitt to Mr. Sommerville which I was unable to read and which the committee refused to have Mr. Sommerville called to produce that would have been enlightening if the people of Canada were allowed to know them. I submit that this was an arbitrary and unfair use of party majority, a denial of free speech and of the simplest principle of justice, and a further instance of the fact that the power of the government will be used in every way to protect themselves, quite regardless of public interest.

The CHAIRMAN: Gentlemen, I hope you will bear with me again if I make a comment on the same subject. Every member of this committee has a right and I hope always will have a right to his own opinion and to freely express his own opinion. Mr. Macdonnell has freely expressed his opinion. I do not agree with it and I believe a large majority of this committee does not agree with it. I believe we have passed a very important milestone in regard to the operation of Crown companies in this country. I believe that the committee used exceedingly good judgment in confirming which they did the decision which was made by the government of this country when the Canadian National Railway system was put on a corporate basis rather than a departmental basis, and Mr. Macdonnell, I would call your attention to the fact, if I may—and I trust there will be no offence in my doing so—that in the final vote and final decision which was made by this committee yesterday in regard to this important matter it was not a question of Liberal vs Conservative but that the other two parties, the Social Credit party and the C.C.F. party, joined in making that decision.

Mr. FULTON: In the absence of Mr. Knight.

The CHAIRMAN: The party was well represented. Mr. Gillis was here.

Mr. GILLIS: Hear, hear.

The CHAIRMAN: Gentlemen, we have concluded our work and as your chairman I do wish to thank you once again for the same type of co-operation which you have always lent to the chair in regard to our work, and I know that on behalf of the committee you would want me to extend to Mr. Gordon

and to his staff our sincere thanks for the very valuable assistance which has been given to the committee in connection with our work in reviewing the activities of the Canadian National Railways for the past year and their budget for the current year.

Mr. McLURE: I think you might have added something and said this, that we have entertained the management of the Canadian National Railway up here for a number of years on this committee and I think it is up to them now to invite this committee down to Montreal for the next session and let us have the three days down there on their budget.

Mr. GORDON: That would be railway interference with politicians.

The CHAIRMAN: We will adjourn until eleven o'clock tomorrow morning.

APPENDIX A

AVERAGE REVENUES PER TON MILE OF RAILWAYS IN
VARIOUS COUNTRIES

Year 1951

(Source: "International Railway Statistics")

Pub. by International Union of Railroads)

Country	Cents per ton-mile
Algeria	2.2779
Germany	2.2993
Austria	1.8028
Belgium	2.8144
Denmark	2.2471
Spain	5.1542
Finland	2.1599
France	1.9323
Great Britain	6.2771
Greece (State)	4.0536
(France Hellenic)	9.1550
Iran	3.2931
Italy	1.6692
Lébanon	4.7038
Luxembourg	4.7213
Morocco (Mor. Rly.)	12.9538
(Tang-Fez. R. Co.)	1.8650
Norway	2.4548
Netherlands	1.6135
Portugal	2.6468
Sweden	1.7817
Switzerland (Federal)	5.2178
(B.L.-S.R.)	5.4679
Syria (State)	4.1422
Tunesia	2.1643
Turkey	2.1928
Year 1952	
Canadian National Railways	
(Canadian Lines)	1.366
United States Class 1	
Railroads (10 months)	1.420 (U.S. Funds)

NOTE: All figures in Canadian Funds except as noted.

HOUSE OF COMMONS

APR 24 1953

Seventh Session—Twenty-first Parliament

1952-53

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, MARCH 26, 1953

FRIDAY, MARCH 27, 1953

Trans-Canada Air Lines—Annual Report (1952) and Budget
(1953) Auditors' Report to Parliament

WITNESS:

Mr. G. R. McGregor, President, Trans-Canada Air Lines.

SPECIAL COMMITTEE ON RAILWAYS AND SHIPPING

OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: HUGHES CLEAVER, Esq.

Vice-Chairman: H. B. McCULLOCH, Esq.

Messrs:

Benidickson	Fraser	Macdonnell
Browne (<i>St. John's West</i>)	Fulton	(<i>Greenwood</i>)
Carter	George	McCulloch
Cavers	Gillis	McLure
Chevrier	Healy	Mott
Churchill	Helme	Mutch
Cleaver	James	Picard
Dumas	Knight	Pouliot
Follwell	Macdonald	Thomas
	(<i>Edmonton East</i>)	

R. J. GRATRIX
Clerk of the Committee

ORDERS OF REFERENCE

THURSDAY, March 12, 1953.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs. Benidickson, Bourget, Browne (*St. John's West*), Carter, Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

MONDAY, March 16, 1953.

Ordered,—The Annual Reports for 1952 of the Canadian National Railways, the Canadian National (West Indies) Steamships, the Canadian National Railways Securities Trust, and the Auditors' Report to Parliament in respect to the Canadian National Railways and Canadian National (West Indies) Steamships, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, together with the following items of estimates for 1953-1954:

Vote 467—Prince Edward Island Car Ferry and Terminals—deficit;

Vote 471—North Sydney, N.S.—Port aux Basques Ferry and Terminals—deficit;

Vote 476—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the act.

And that the resolution passed by the House on January 28, 1953, referring certain estimates to the Committee of Supply, be rescinded insofar as the said resolution relates to Votes 467, 471 and 476.

TUESDAY, March 17, 1953.

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1952, the Auditors' Report to Parliament for the year ended December 31, 1952, in respect of Trans-Canada Air Lines, and also the Operating Budget and Capital Budget for the calendar year 1953 in respect of Trans-Canada Air Lines, all tabled earlier this day, be referred to the said Committee.

WEDNESDAY, March 18, 1953.

Ordered,—That the quorum of the said Committee be reduced from fourteen to eight Members.

Ordered,—That the said Committee be granted permission to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

THURSDAY, March 19, 1953.

Ordered,—That the Capital Budget of the Canadian National Railways for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

Ordered,—That the Capital Budget of the Canadian National (West Indies) Steamships, Limited for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

FRIDAY, March 20, 1953.

Ordered,—That the name of Mr. Chevrier be substituted for that of Mr. Bourget on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, March 27, 1953.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, begs leave to present the following as its:

SECOND REPORT

Pursuant to the Orders of Reference of the House of March 12, 16, 17 and 19, 1953, this Committee had before it for consideration the following:

1. The Annual Report for 1952 of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Auditors' report to Parliament in respect of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited.
2. The Annual Report of the Trans-Canada Airlines for the calendar year 1952, and the Auditors' report to Parliament for the calendar year 1952, in respect of Trans-Canada Airlines.
3. The Annual Report of the Canadian National Railways Securities Trust for 1952.
4. The capital budget of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for the year ending 1953 and the operating budget and capital budget of the Trans-Canada Airlines for the calendar year 1953.
5. Vote 467—Prince Edward Island Car Ferry and Terminals—deficit.
6. Vote 471—North Sydney, N.S., Port aux Basques Ferry and Terminals—deficit.
7. Vote 476—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the Act.

Your Committee held ten meetings, during which the above-named matters were considered and evidence adduced thereon.

The Annual Reports of the Canadian National Railways for 1952 disclose a net income of \$24,305,448.00, as compared with \$31,783,119.00 in 1951. However, interest charges amounted to \$24,163,121.00 in 1952, as compared with \$46,815,115.00 in 1951 bringing about a surplus of \$142,327.00 as compared with a deficit of \$15,031,996.00 in 1951. The said Annual Report was adopted.

The Annual Reports of the Canadian National (West Indies) Steamships, Limited for 1952 disclose a net operating profit of \$326,276.00 as compared with a net operating deficit of \$31,576.00 for 1951. After inclusion of Vessel Replacement Fund earnings of \$145,065.00 and payment of interest on bonds held by the public and on Government advances, there was an income deficit of \$3,909.00 compared with an income deficit of \$466,992.00 in 1951. The balance in the Vessel Replacement Fund at the end of 1952 was \$5,018,229.00 as compared with \$4,685,337.00 at the year end in 1951. The Insurance Fund balance was \$2,354,572.00 against a balance of \$2,046,654.00 at the end of 1951. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1952 discloses a net operating revenue of \$2,757,879.00, and that after payment of interest amounting to \$750,000.00 on capital invested and making provision for income tax of \$1,200,000.00, there is a resulting surplus of \$807,879. as compared with a

surplus of \$3,890,957.00 in the year 1951, during which year no income tax with respect to this company was payable. The said Annual Report was adopted.

The Auditors' Reports to Parliament with respect to the Canadian National Railway System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1952, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, for the calendar year 1953 were examined and adopted.

The items of the Estimates for the year ending March 31, 1954, being votes 467, 471 and 476, were considered and approved.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, and Mr. T. J. Gracey, Comptroller, both of the Canadian National Railways; and Mr. G. R. McGregor, President of the Trans-Canada Airlines, and Mr. W. S. Harvey, Comptroller.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,

Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 26, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11:00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Churchill, Dumas, Follwell, Fraser, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot.

In attendance: Messrs. G. R. McGregor, President; W. S. Harvey, General Auditor; S. W. Sadler, Auditor, and Mr. R. C. McInnis, Director, Public Relations, all of the Trans-Canada Air Lines, and Messrs. Frank P. Turville, J. D. Morison, and D. T. G. Padley, Chartered Accountants, of George A. Touche & Company, Accountants.

The Committee considered the following reports in respect of the Trans-Canada Air Lines:

1. Annual Report, 1952.
2. Operating and Capital Budget, 1953.
3. Auditors' Report to Parliament, 1952.

Mr. McGregor was examined with respect to each of the said Reports, being assisted by Mr. Harvey.

The examination of Mr. McGregor being concluded on all matters referred concerning the Trans-Canada Air Lines, the above reports were adopted and the Chairman, on behalf of the Committee, congratulated Mr. McGregor and his entire staff on the extremely successful performance of T.C.A. in 1952.

At 12:40 o'clock p.m. the Committee adjourned to meet again at the call of the Chair.

R. J. GRATRIX
Clerk of the Committee.

MARCH 27, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met, *in camera*, at 10:30 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Churchill, Dumas, Follwell, Fraser, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, Mott, Mutch.

The Chairman submitted a draft report on all matters referred to the Committee.

After some discussion, and several amendments being proposed the said report was adopted without amendment, *on division*.

At 11:05 o'clock a.m. the Committee adjourned sine die.

R. J. GRATRIX
Clerk of the Committee.

EVIDENCE

MARCH 26, 1953.

The CHAIRMAN: Gentlemen, we have before us this morning the Trans-Canada Air Lines report. We are pleased to have Mr. G. R. McGregor back with us once again, and he has with him Mr. W. S. Harvey, Comptroller; Mr. S. W. Sadler, Auditor General Accounts; and Mr. R. C. MacInnes, Director of Public Relations. Shall Mr. McGregor proceed with reading the report?

Agreed.

Mr. MCGREGOR:

TRANS-CANADA AIR LINES

MONTREAL, February 28, 1953.

To The Right Honourable,
The Minister of Trade and Commerce, Ottawa.
Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1952.

The rapid development of the airline's earning power and capacity for public service that has characterized recent years proceeded at an unslackened pace. For the first time in TCA's history, over a million passengers were carried. The volume of passenger transportation rose by 20 per cent, while air cargo and air express traffic increased by 30 per cent and mail volume by 8 per cent.

There was a considerable expansion of services and far-reaching plans made for future development. For the fourth year in succession the Company was able to carry on its business without the introduction of new capital.

It affords satisfaction that in a year of further cost increases the airline was again able to show a substantial net income, this year amounting to \$807,879, for all services, after tax of approximately \$1,200,000.

Financial review

There follows a tabulation of the 1952 operating results compared with those of 1951:

	1952	1951	Increase or (Decrease)
Operating Revenues ..	\$55,057,708	\$48,010,301	\$7,047,407
Operating Expenses ..	52,744,741	43,336,120	9,408,621
Operating Income	\$ 2,312,967	\$ 4,674,181	(\$2,361,214)
Non-operating Income			
—Net	444,912	33,224	478,136
	\$ 2,757,879	\$ 4,640,957	(\$1,883,078)
Interest on Capital			
Invested	750,000	750,000	—
Income	\$ 2,007,879	\$ 3,890,957	(\$1,883,078)
Provision for			
Income Tax	1,200,000	—	1,200,000
Net Income	\$ 807,879	\$ 3,890,957	(\$3,083,078)

Comparative earnings before taxes in 1952 were \$1,883,078 less than in 1951. North American operations showed a decrease of \$1,019,024, while the overseas service net was down by \$864,054.

System operating revenues increased by 15 per cent, due principally to the steady growth of the Company's passenger business, although income from express and cargo transportation was also greatly improved. On the North Atlantic, however, passenger revenues declined by \$939,283, due to the major fare reductions which were made effective May 1. The increased traffic that was stimulated on this route, although considerable, was not sufficient to completely offset the lower unit fare.

System operating expenses increased by 22 per cent due primarily to the direct cost associated with the increased mileage flown, increased traffic carried and the related increase in payroll expense which alone amounted to almost five million dollars. The percentage rise in expenses was, however, also affected in 1952 by exceptional items resulting from the fleet expansion programme.

The higher level of expense did not signify any deterioration of airline efficiency. In spite of it, the unit cost of producing air transportation decreased to 39.6 cents per available ton mile, thanks to the productivity of staff and equipment, combined with a greater business volume.

While it is hoped that this trend will continue, cost tendencies, largely beyond the company's control, demand that the future be regarded with caution.

The balance sheet for the year just closed reflects a satisfactory financial and cash position. The Company is committed to heavy expenditures for capital account during the next eighteen months. But it will be possible to meet these payments by recalling the Company's funds which are on loan temporarily to the Canadian National Railways. Capital expenditures for which TCA is committed over the next two and a half years approximate \$35,000,000, against which progress payments of \$5,600,000 have already been made.

Operations and traffic review

The steady growth of the airline's transport work is reflected in the following statistics:

	1952	1951	Per Cent Increase
Total Aircraft Miles Flown	28,600,919	25,090,068	14
Passengers Carried	1,132,518	973,337	16
Passenger Miles Flown	653,961,415	545,160,296	20
Passenger Miles Available	881,585,954	745,279,578	18
Mail Ton Miles	4,843,052	4,468,093	8
Aircargo Ton Miles	5,643,920	4,237,880	33
Air Express Ton Miles	1,398,507	1,174,096	19
Revenue Ton Miles Flown	77,495,093	65,173,848	19
Ton Miles Available	133,177,327	108,705,797	22

Service expansion

TCA flew 14 per cent more scheduled miles on all services than in 1951. Flight frequencies were increased on a number of routes, notably the trans-continental, where a fifty daily service was operated during the summer months. On the North Atlantic, daily flights were operated in all months except November and December, while Caribbean schedules were increased during the winter season. North Star service was extended from Montreal to Newfoundland, with scheduled stops at Moncton, Sydney and St. John's.

The first direct air service between Canada and Germany was inaugurated on November 5, with an initial schedule of one round-flight a week. Dusseldorf, the eastern terminal, is well located to attract business travel from the industrialized Ruhr area and to serve the air transport needs of the Canadian troops stationed in the Federal Republic of Germany.

Within Canada, Fredericton was added to the domestic route pattern on February 1. A once-weekly flight from Montreal was scheduled to serve Goose Bay, previously dependent upon North Atlantic operations.

Such progress was made in the levelling of the peaks and valleys of seasonal demand that the Company found it advantageous to provide 8% more domestic service for the winter months of 1952-53 than had been the case a year before. This healthy trend was due in no small measure to the airline's reputation for operational dependability, supported by a record of 97% of all scheduled miles completed.

Passenger traffic

The airline carried 1,132,518 passengers on all services in 1952, a figure that gives perspective to TCA's growth when placed beside the 443,782 passengers carried five years ago in 1947 and the 104,446 passengers of 1942.

To meet the rising demand for air service, TCA increased its domestic seating capacity 20% during the busiest traffic season by a combination of aircraft modification and additional flying. Under these circumstances the heaviest emphasis was placed upon a service improvement campaign to promote a high level of efficiency in all branches of the Company, but particularly with regard to functions of a reservations and passenger handling nature.

There were no fare increases during the year, and indeed there has been no increase in the cost of air travel to TCA's passengers since April 1, 1947. This condition is virtually unique in a period of consistently rising prices.

On the North Atlantic, there was a May 1 reduction of almost \$200 in the price of a round-trip ticket, as TCA joined other carriers in the introduction of low-fare service. Because of fleet limitations, the Company chose to operate a single standard of service pending delivery of aircraft of larger capacity now on order.

Carriage of immigrants from the British Isles and Europe, under arrangements with the Canadian Government, terminated on April 30. From the inauguration of immigrant transport in December, 1950 to its conclusion, TCA accommodated over 10,000 such passengers, with 3,000 of these travelling in the first four months of 1952.

There was a 41% increase in Bermuda and Caribbean passenger traffic as trade quickened between Canada and the West Indies and the vacation popularity of the southern resorts grew.

Commodity traffic

There was further orderly and steady development of commodity traffic throughout the TCA system. The air line continued to provide convenient and frequent shipping service by allocating cargo accommodation on all flights, as well as by offering express service on domestic routes.

Nevertheless, considerable cargo space remained available on most North American operations and, on July 1, the Company made an over-all reduction in its aircargo tariff of 10 per cent as a first step in a long range plan having as its objective the greater utilization of existing cargo capacity and the ultimate justification of the operation of all-cargo aircraft through progressive reductions in the cost to shippers.

TCA continued to be the principal North Atlantic aircargo carrier operating through the Montreal gateway. Here, and in contrast with the domestic situation, loads approached capacity level both eastbound and westbound.

With trade restrictions somewhat relaxed in the British West Indies, air shipment on the Company's southern routes showed marked improvement. Increased cargo for South American destinations also developed.

Mail traffic

TCA continued the general carriage of first-class mail in Canada over routes where the use of air transport ensured more rapid delivery. In consequence, the nation enjoyed one of the most expeditious postal transport services in the world.

Both domestic mail volume and mail revenue increased moderately. However, the Company's remuneration per mail ton mile decreased from \$1.45 in 1951 to \$1.39 in 1952, maintaining the steady downward trend of recent years.

Effective February 1, the Post Office Department introduced a substantial reduction in Air Parcel Post rates, with the result that there was some increase in the volume of this traffic.

North Atlantic mail load rose by 26 per cent with eastbound volume heavily predominating. Very little traffic was received from the United Kingdom postal authorities. Mail given to TCA for carriage on its Bermuda and Caribbean flights was almost negligible.

There was a further decline in the percentage of system mail revenue to total revenue, this amounting to only 14 per cent in 1952, as compared with 15 per cent in 1951 and 48 per cent a decade ago.

Routes

At the close of 1952 Trans-Canada Air Lines was operating on 9,916 miles of domestic routes and an overseas route pattern of 8,999 miles. In aggregate, this was an increase of 1,586 miles or 9 per cent from the previous year.

TCA's flights now embrace nearly 50 communities in Canada, the United States, the British Isles, France, Germany, Bermuda and the Caribbean. Not only are Canada's major cities linked by air, but a comprehensive system of overseas air transport now serves the nation's foreign commerce and the international travel requirements of its citizens. Over these routes the airline scheduled in 1952 a daily average of 74,149 aircraft miles and 2,404,538 available passenger miles.

The route map on pages 12 and 13 illustrates the wide scope of the airline's work.

Property and equipment

Three more North Stars, purchased in 1951, entered domestic service early in the year, bringing to 23 the number of these aircraft in the fleet.

As a further step to expanded carrying capacity, the Company undertook the addition of eight seats to each of the 40-passenger North Stars in North American service. This was done without operational penalty or change in the space available to the individual passenger. The work of modification was done at the Winnipeg overhaul base and by year-end was 65 per cent completed.

Performance of the North Star fleet was again of the highest order. These aircraft achieved a daily utilization of approximately ten hours during the busiest traffic months, a figure which is unrivalled in the industry.

The Company's fleet of 26 DC-3s used in passenger service and the DC-3 cargoliner which has been part of this fleet since March, 1947, operated efficiently and at a high utilization throughout the year.

In the interest of national defence, TCA continued the overhaul of RCAF training aircraft under contract with the Department of Defence Production in a programme designed to relieve trained military staff for operational duties. This project was concentrated at the Winnipeg base where 1,395 aircraft were handled during the year.

A contract was let for the construction at Malton Airport of Canada's largest commercial aircraft hangar. This will be required by the growing fleet and the rapidly increasing flow of air operations through Toronto.

To speed airline communications of both an operational and reservations character, provision was made for a number of telephone circuits interlocking various key offices and stations. As supplements to the established teletype circuits they proved of great value.

Airport and airway facilities

Although terminal facilities at the majority of Canada's major airports leave much to be desired and are being seriously taxed by the growth of air traffic, some progress was made at specific points. The airline continued to make recommendations to the Department of Transport on these matters and the two organizations cooperated usefully on many occasions.

Completion of a new airport near Saint John, N.B. enabled TCA, after January 1, to offer improved service to that city. Driving distance between Saint John and its airport was reduced from 40 to 10 miles.

The Company transferred its New York operations from La Guardia Field to Idlewild Airport on March 2. While this action was initially taken for the sole purpose of reducing aircraft congestion at the former point, it will have the ultimate effect of obtaining for TCA a decided improvement in passenger handling facilities.

The Department of Transport undertook the construction of new and superior airport terminal buildings at Moncton and the Lakehead. An extension was made to the seriously crowded Winnipeg terminal, and modifications of a helpful nature were made to the Dorval domestic airport building.

Important runway construction took place at Regina and Vancouver.

Personnel

Staff of Trans-Canada Air Lines numbered 6,224 at the close of 1952, an increase of 712 from the previous year. This moderate enlargement of the Company's working force was due solely to the larger scale of operations and the record traffic volume. The fact that a 13% increase of staff was accompanied by a 23% increase of available ton miles and a 20% rise of passenger business is testimony to the efficiency of personnel.

Noteworthy was the employment of 47 additional pilots, bringing to 413 the number of Captains and First Officers in TCA service.

In September, Mr. George S. Cowie was appointed Treasurer, succeeding Mr. C. D. Cowie, retired.

In November, Mr. W. S. Harvey was appointed Comptroller, succeeding Mr. T. H. Cooper, retired.

Development

In 1952 TCA completed its fifteenth year of service, but the potentialities of the air transport industry permitted no abatement of the Company's planning for its future growth. Rapid development of new aircraft types gave further impetus to this phase of the airline's activities.

Future aircraft

During 1952, TCA placed orders amounting to over \$23,000,000 for three additional Super Constellations to be used on overseas services, 15 Vickers Viscount aircraft of the turbine propeller type for Canadian intercity flying and three Bristol air freighters designed specifically to carry air cargo. These, combined with the airline's present flight equipment, will constitute one of the most modern and balanced fleets of commercial air transports in the world.

The Super Constellation, a greatly enlarged version of its able predecessor, is, in the Company's judgment, the contemporary aircraft best equipped to provide an economical and high standard of operation on long-haul services. Equipped with four engines of the new compounded turbine-reciprocating type, this 65-ton airliner will reduce present trans-Atlantic flight times by as much as four hours. Flexibility of the cabin interior will permit various seating arrangements and combinations of standard and low-fare service. Initially, TCA's Super Constellations will carry 63 passengers. A total of eight of these aircraft are now on order and expected to enter service in the spring of 1954.

With the delivery of Vickers Viscounts later in 1954, TCA will become the first airline to use aircraft of the gas-turbine type on North American routes. The Viscount is the most recently developed medium ranged civil air transport in the world. Its four Rolls-Royce Dart engines will provide Canadian air travellers with high speed, vibrationless flight and an exceptionally low cabin noise level. Turbine propeller power has the added advantage of overcoming the present inefficiency of the pure jet engine on short and medium ranged flights and eliminates the necessity of flying at a very high altitude for economic operation. TCA's Viscounts will supplement the present fleet on major intercity runs.

Aircargo Planning

Years of aircargo development and planning culminated in 1952 in plans to broaden still further the scope of this established shipping service. By ordering Bristol air freighters, TCA became the first scheduled airline in North America to order aircraft designed specifically for the loading, unloading and the transport of commodities. Other so-called cargo types in use are adaptations of basic passenger aircraft designs. These freighters, each capable of carrying six tons of load, will begin operation in late 1953 over the Winnipeg-Toronto-Montreal route.

The July reduction of 10% in domestic aircargo rates proved valuable in assessing market potential as part of the Company's long range cargo development plans, and it was therefore decided to file a tariff providing for a further 30% reduction. Market analysis indicates that with TCA's present frequency of operation, and with the single exception of that portion of the trans-continental run where the freighters will be employed, ample cargo accommodation will be available on established flights even at the lower rate level. In any case, it will continue to be the Company's policy to provide the additional capacity where it is required.

Route planning

Certain important changes to the domestic route pattern were also planned for implementation at the earliest possible dates. Lethbridge and Regina will be added to the transcontinental route in the spring of 1953, although continuation of this service through the latter point during the winter months will be dependent upon the completion of necessary runway construction. Both these cities are at present served by DC-3 intercity operations. In addition, application was made for authority to operate a daily service between Sault Ste. Marie, Sudbury, North Bay and Ottawa, with a connecting Toronto-Sudbury service and a northern extension to Timmins. This project, which would mean greatly improved transport for the Northern Ontario centres, must also wait upon basic airport installations.

Immediate outlook

It follows from the plans just described that 1953 will be a year of active preparation for Company service expansion. Many development expenses

will be involved from which no return can be expected until 1954. Under these circumstances, there is likely to be some decline in net financial results.

In spite of these cautioning prospects, the future of Canadian air transportation, growing within the framework of a flourishing economy, must be regarded with confidence. It will remain the Company's policy to provide the best airline service consistent with the maintenance of sound economic standards. The Board of Directors feel that the results achieved in 1952 again demonstrate the efficiency, industry and skill of the Airline's personnel and gratefully acknowledge the loyal and effective work which has been done.

For the Directors:

G. R. McGREGOR,
President.

TRANS-CANADA AIR LINES

BALANCE SHEET AT DECEMBER 31st, 1952

ASSETS		LIABILITIES	
Current Assets:		Current Liabilities:	
Cash.....		Accounts and notes payable.....	\$ 3,500,348
Working funds.....		Traffic balances payable to other air lines.....	1,712,778
Special deposits.....		Air Travel plan deposits.....	921,825
Accounts receivable:		Salaries and wages.....	818,570
Government of Canada.....	\$ 1,427,422	Prepaid transportation.....	1,498,416
Traffic balances from other air lines.....	929,136	Income taxes.....	603,514
Air travel plan.....	761,207	Other current liabilities.....	67,112
Agents.....	345,186		
Other.....	736,286		
			\$ 9,122,563
Materials and supplies.....			
Other current assets.....			
	4,199,237		
	3,216,292	Reserves:	
	84,525	Insurance.....	\$ 5,164,992
		Overhaul.....	860,764
	\$ 9,443,522		
Investments and Special Funds:		Capital Stock:	
Deposits with Canadian National Railways.....	\$ 13,500,000	Common stock—fully paid.....	
Insurance fund.....	5,164,992		
Joint associations.....	27,427		6,025,756
			25,000,000
Capital Assets:			
Property and equipment.....	\$ 31,563,507	Surplus:	
Less: Accrued depreciation.....	20,458,606	Surplus, January 1st, 1952.....	\$ 3,890,957
		Net income, year 1952.....	807,879
Progress payments on purchase of aircraft..	\$ 11,104,901	Surplus, December 31st, 1952.....	\$ 4,698,836
	5,606,313	Reserved for replacement of capital assets..	
			4,698,836
			\$ 44,847,155

W. S. HARVEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1952, and, in our opinion, proper books of accounts have been kept by the Air Lines.

The above Balance Sheet and the relative Statement of Income which are in agreement with the books of the Air Lines are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Lines' affairs at the 31st December, 1952, and of the income and expense for the year on a basis consistent with that of the preceding year, with the exception that in the case of the Statement of Income there have been changes in the bases of providing for depreciation and insurance.

The transactions of the Air Lines that have come under our notice have, in our opinion, been within the powers of the Air Lines. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

TRANS-CANADA AIR LINES
STATEMENT OF INCOME

Operating revenues:	Year 1952	Year 1951
Passenger	\$42,022,616	\$36,911,889
Mail	7,698,641	7,225,149
Express and Cargo	3,380,337	2,643,210
Excess Baggage	350,184	272,713
Charter and Other	139,667	91,079
Incidental Services—Net	1,466,263	866,261
Total	\$55,057,708	\$48,010,301
Operating expenses:		
Flight Operations	\$11,317,143	\$10,024,720
Ground Operations	8,590,652	6,849,644
Maintenance	14,438,386	11,245,130
Depreciation	4,378,715	3,740,560
Passenger Service	3,281,646	2,676,216
Sales and Reservation Service ..	6,512,953	5,234,276
Advertising and Publicity	1,183,906	1,137,532
General and Administrative	3,041,340	2,428,042
Total	\$52,744,741	\$43,336,120
Operating Income	\$ 2,312,967	\$ 4,674,181
Non-operating Income—Net	444,912	33,224
	\$ 2,757,879	\$ 4,640,957
Interest on Capital Invested	750,000	750,000
Income	\$ 2,007,879	\$ 3,890,957
Provision for Income Taxes	1,200,000	—
Net Income	\$ 807,879	\$ 3,890,957

The CHAIRMAN: Thank you, Mr. McGregor.

The Right Hon. Mr. Howe asked me to convey to the committee his regrets that he is unable to be with the committee this morning and indeed, today. It had been planned that the TCA report would be taken up yesterday, and the Right Hon. Mr. Howe had that day clear. But today he has to be in cabinet this morning and out of the city this afternoon. However, he will be in Ottawa tomorrow if any point should come up as to which any member of the committee might wish to ask questions of him.

Are there any questions on page 3 of the report?

Mr. FRASER: On the matter of the increase in mail volume, did the Post Office Department pay you in accordance with that increase?

Mr. MCGREGOR: No. The agreement which is in existence between the Post Office and the TCA calls for a fixed payment with a certain maximum carriage. But the Post Office has not yet quite reached that maximum.

Mr. FRASER: You have not reached that point yet?

Mr. MCGREGOR: That is right. So the increase in volume did not produce any additional revenue to the airline.

Mr. FRASER: How near are you to that maximum?

Mr. McGREGOR: I would have to look that up. We have those figures.

The CHAIRMAN: Does page 1 carry?

Carried.

Page 2?

Mr. BROWNE: I should like to ask about the rates for air cargo as compared with the rates for air express. Is there any supplementary charge for air express over air cargo?

Mr. McGREGOR: Yes.

Mr. BROWNE: There is an additional charge?

Mr. McGREGOR: Yes, there is an additional charge based upon priority of handling air express over air cargo. Air express is a door to door service while air cargo is an airport to airport service.

Mr. BROWNE: But it is similar?

Mr. McGREGOR: Basically, yes.

Mr. BROWNE: And if you are in a hurry to get an express package, you will want it delivered to you as soon as the aircraft arrives at its destination?

Mr. McGREGOR: Yes. Due to the availability of capacity, it is normally the case that air cargo travels on the first flights after reaching the airport, just as does air express. But if capacity were tight, then air express would take priority in travel over air cargo.

Mr. BROWNE: It would be handled by your own officials, would it not?

Mr. McGREGOR: Yes.

Mr. BROWNE: If I send a package express, you deliver it. If I mail a letter, it just goes to the post office and you have nothing to do with it?

Mr. McGREGOR: That is right.

The CHAIRMAN: Does page 2 carry?

Carried.

Mr. FOLLWELL: Your air express is handled by the express company for you?

Mr. McGREGOR: Yes, on a contract. We pay them.

Mr. FOLLWELL: You do not maintain your own trucks?

Mr. McGREGOR: The question is about air cargo?

The CHAIRMAN: Page 5?

Mr. MACDONNELL: How is your air cargo delivery made?

Mr. McGREGOR: Quite often by the shipper or the consignee who picks it up at the airport, or delivers it at the airport. But if he requests it to be picked up or delivered, there is an express service provided.

The CHAIRMAN: Does page 5 carry?

Mr. FRASER: On page 5 it says that the North American operations showed a loss, and also that the overseas net was down. Now, in regard to that, what do you contemplate in 1953? Is it going to be down again?

Mr. McGREGOR: The net?

Mr. FRASER: Yes.

Mr. McGREGOR: Yes, I think it will be. Our operating budget indicates a net profit of \$600,000 as compared with \$800,000 for 1952 for the reasons which are mentioned. A great deal of the expenditure—and that includes some equipment—will be undertaken this year both in the matter of personnel and supplies. And the revenue from the new equipment will not become available until 1954.

Mr. FRASER: You are paying out that money this year?

Mr. MCGREGOR: That is right.

Mr. FRASER: You are paying it out of income; you are paying capital expenditures out of that?

Mr. MCGREGOR: No. I was referring to the hiring and training of personnel.

Mr. FRASER: I see, and to special equipment?

Mr. MCGREGOR: Yes, but not capitalized equipment. You see, there will be materials which are normally not capitalized.

Mr. FRASER: I see.

Mr. BROWNE: Are the reductions in fare all-the-year-round reductions, or just seasonal reductions?

Mr. MCGREGOR: In the case of the North Atlantic, there were two reductions, but they covered the whole year. However, in the case of domestic operations, we put in two seasonal reductions which are not year round fare reductions. They are, the introduction of family fare plans during the winter months and also a discount to commercial travellers during the winter months.

Mr. BROWNE: Could you give me the fare, let us say, from Gander to London?

Mr. MCGREGOR: Yes. I think it is in the time table, as a matter of fact.

Mr. BROWNE: I wanted a comparison before the reduction with now.

Mr. MCGREGOR: It is roughly \$110. I would like to check that figure exactly. That is for one way?

Mr. HARVEY: We have not got the previous one.

Mr. BROWNE: You mean there is a reduction of \$110. What is the fare now from Gander to London?

Mr. HARVEY: One way?

Mr. BROWNE: Yes.

Mr. HARVEY: \$205.

Mr. BROWNE: It used to be \$315.

Mr. MCGREGOR: We can get that figure for you. One way Gander-London fare early 1952 was \$339.20.

Mr. BROWNE: Very well.

Mr. MACDONNELL: I do not think you have explained the reason for the big increase in non-operating income.

Mr. MCGREGOR: No. I did not touch on that when I was reading my report.

Mr. MACDONNELL: Would you mind dealing with it now?

Mr. MCGREGOR: I could deal with it now and give you an outline. I would think that the interest revenue from the Canadian National that is our loan to the Canadian National of \$13,500,000 was largely responsible for that.

Mr. MACDONNELL: I noticed that loan. How can you explain that?

Mr. MCGREGOR: That comes about from the fact that the investment in capital in TCA remains fixed. We have been recovering that capital in the substantial depreciation accruals which have gone on right along, but all authorized capital will again be required in 1954 for the payment of the equipment already on order.

In the meantime, \$13 and one half million represents the recovery of capital from depreciation which is available to lend to the Canadian National Railway. They pay us 3 per cent on that capital, and our non-operating revenue increase accordingly.

Mr. MACDONNELL: What would that be?

Mr. HARVEY: Actually, that would be \$377,254 for 1952 and in 1951 it was \$127,000.

Mr. MCGREGOR: The advances to the Canadian National Railways have been progressive over a considerable time.

Mr. MACDONNELL: Would you just give us the history of your capitalization there?

Mr. MCGREGOR: Yes. The company was authorized to issue \$25 million of stock, all of which was to be made available for purchase by the Canadian National, and it was purchased by the Canadian National. It was fully issued by 1948, and that condition has remained static ever since.

But, as the company began to acquire capital through depreciation accruals, it was agreed that this money would be loaned back to the Canadian National at the same rate of interest which was being paid on the \$25 million. The money cost us nothing and netted us nothing. But as that money accumulated and was advanced to the Canadian National progressively, in the last year and a half it has had the effect of gradually decreasing our net capital interest cost.

Mr. MACDONNELL: You mention the \$25 million figure from the Canadian National. It was a sort of basic figure. Will you now explain the \$44 million? Your assets of \$44 million are practically \$20 million more. From what is that built up?

Mr. MCGREGOR: There have been accruals to reserve funds, notably the insurance reserve, which adds to the net worth of the company.

Mr. MACDONNELL: Certainly.

Mr. MCGREGOR: And there has been the depreciation reserve, and an overhaul reserve of nearly \$1 million. Those amounts of money which have come out of the current earnings over the years have all tended to increase the net worth of the company over its capitalization.

Mr. MACDONNELL: I just wanted to get the exact figure. The liability shows that you have a reserve of 6 and 4.

The CHAIRMAN: Yes, 6 and 4.

Mr. MACDONNELL: 13; I am not able to figure out the full \$19 million?

Mr. HARVEY: We had \$20 million accrued over the years through depreciation which we have used. Then there has been our surpluses.

Mr. MACDONNELL: Do they make the difference between \$25 million and \$44 million?

The CHAIRMAN: Included in the \$44 million are current liabilities.

Mr. MACDONNELL: That is true. I am looking at the assets side, and I ask where the difference comes, or the degree of difference, whether it be to expenditures or, looking at the liabilities' side of the reserves and so forth?

Mr. MCGREGOR: That is right. Most of it is offset on the assets side. There are moneys due to the company and they are offset under liabilities by the moneys payable to the company.

Mr. MACDONNELL: I have been trying to find this figure of \$13,500,000 in the Canadian National balance sheet. Can you find it there for me? You have told us about your commitments for aircraft. You explained that you have \$12,500,000 with the C.N., towards that end. You have got some \$5 million also?

Mr. MCGREGOR: That is right.

Mr. MACDONNELL: But there is nothing on the balance sheet to show that. I do not know if that is necessary accounting.

Mr. MCGREGOR: \$5,600,000 appears on our balance sheet. It is a payment already made and the rest is all in the future, commitments maturing beyond the period covered by this balance sheet.

Mr. HARVEY: We indicate in the narrative that we have a contingent liability.

Mr. FRASER: It shows a \$1,200,000 provision for income tax, an increase to that amount over last year. Why?

Mr. MCGREGOR: The company only became eligible to pay corporate income tax on January 1, 1952, as appears in the 1952 budget. Prior to that, the company was not liable to pay income tax. That is the total amount of income tax.

Mr. FRASER: You did not have to pay income tax in 1951?

Mr. MCGREGOR: That is right.

Mr. FRASER: It shows here that you had increased traffic owing to the lowering of the fares on the overseas service. Are you putting on special planes for the Coronation?

Mr. MCGREGOR: Yes.

Mr. FRASER: Will that show an increase in your revenues?

Mr. MCGREGOR: I think it will.

Mr. FRASER: Or is it going to cost more than what you get out of it?

Mr. MCGREGOR: No, I do not think it will cost more. But the net profit will be very small because the traffic is very directional.

Mr. FRASER: It is all one way?

Mr. MCGREGOR: At any one time, yes. Everybody goes over, but there is little traffic coming back. After the Coronation the traffic flow will be reversed.

Mr. FRASER: Will those passenger planes be able to carry express on the way back, or is any arrangement made to pick that up?

Mr. MCGREGOR: Oh yes, and that is one of the saving graces.

The CHAIRMAN: Carried.

Mr. BROWNE: Apart from the special circumstances of the Coronation, and dealing with page 5, is that passenger service on the North Atlantic justifying your decrease in the fare, or are you losing money?

Mr. MCGREGOR: It is not justifying it at the present time for the reasons referred to in our report. The present aircraft we are operating on the North Atlantic cannot take advantage of the additional number of passengers we would like to see and which are available at the lower fares. That is a condition which will be corrected by the introduction of the Super Constellations.

Mr. BROWNE: You will have two fares then?

Mr. MCGREGOR: Yes.

Mr. BROWNE: What will be the additional accommodation of the service?

Mr. MCGREGOR: Quite a bit, although it does not sound very much. In the lower fare service passengers will be seated five abreast, in groups of three seats and two seats. Generally the space between the seats will be considerably less. The free baggage allowance will be 26 pounds less.

Mr. BROWNE: You mean it will be 40 instead of 66?

Mr. MCGREGOR: That is correct. And in addition, the meals are paid for by the low fare passengers, and no beverages are available to them. So altogether there is quite a difference in the standard of service between the two fare rates.

Mr. BROWNE: What would be the difference in the fares?

Mr. MCGREGOR: Roughly \$125 between Montreal and London.

Mr. BROWNE: Will there be a reduction in the \$205 fare?

Mr. MCGREGOR: No. That is the low fare.

Mr. BROWNE: The other fare is increased?

Mr. MCGREGOR: That is right.

Mr. FRASER: You say that beverages are not allowed for these lower fares. But do you not make a profit from your beverages?

Mr. MCGREGOR: I would doubt it very much.

Mr. MACDONNELL: Why not?

Mr. MCGREGOR: They are expensive to carry.

Mr. BROWNE: But there is no duty.

Mr. MCGREGOR: I mean that the actual transport of them, as well as of the other mixes which go with them.

Mr. McLURE: And they evaporate quickly.

The CHAIRMAN: Page 6.

Mr. MCGREGOR: I think that is quite possible.

The CHAIRMAN: Carried.

Are there any questions on "Operations and Traffic Review"?

Mr. MACDONNELL: On page 6 it says:

In spite of it, the unit cost of producing air transportation decreased to 39·6 cents per available ton mile,...

It decreased from what?

Mr. HARVEY: From 39·87.

The CHAIRMAN: Does page 6 carry?

Carried.

Page 8?

Mr. CARTER: I wonder if Mr. McGregor could tell us if the North Star flight from Montreal to Newfoundland pays its way?

Mr. MCGREGOR: Yes and it is very popular, I am glad to say.

Mr. FRASER: In regard to the service to Germany, could you tell us more about it?

Mr. MCGREGOR: Yes. The service is provided as an extension from the service to London. The flights go to Dusseldorf via London, and they have a fairly short turn-around at Dusseldorf. We do not "over-night" the crews or aircraft there. The traffic, while it has not been heavy so far, has been better than is normal with a new service. I think we can attribute that to the fact that a lot of Canadian army personnel are located in Germany not far from Dusseldorf, which is a center of the area. We believe the service will prove to be financially satisfactory.

Mr. FRASER: That is what I was going to ask you.

Mr. MCGREGOR: Yes.

Mr. GEORGE: Do you carry traffic from London to Germany?

Mr. MCGREGOR: No, we have not the right to do so. We have not got the right to carry traffic between London and Dusseldorf, or vice versa.

Mr. MACDONNELL: That is true at both ends?

Mr. MCGREGOR: Yes it is. It would require a change in the bilateral air agreement between the United Kingdom and Canada, for us to have that permission.

Mr. BROWNE: Mr. Chairman, I would like to ask Mr. McGregor about that service again between Montreal and St. John's. Do you not find more people wanting to take passage that way than can get it?

Mr. MCGREGOR: At certain times and on certain days of the week, yes.

Mr. BROWNE: Are you thinking of expanding that at all, because that route is so much quicker and more convenient.

Mr. MCGREGOR: Yes, but before we can do anything we will have to get delivery of the equipment that we have on order.

Mr. BROWNE: You won't be able to do anything this year, then?

Mr. MCGREGOR: I am afraid not.

Mr. FRASER: In connection with the carriage of immigrants from the British Isles and Europe, do you make a profit on that?

Mr. MCGREGOR: Yes, it was a profitable traffic. It is over now, as you know; that reference is to last spring.

Mr. FRASER: It is mentioned in your report here and that is why I wanted to ask regarding it.

Mr. MOTT: Regarding the service from Vancouver to Ottawa, since you changed the number of flights there is that flight which drops you off at Toronto at four o'clock in the morning, and then you have to wait till eight o'clock in the morning before you can get out. It was better before that change.

Mr. MCGREGOR: We are putting on additional service. We are going to have six flights, six daily transcontinental flights, this spring and that requires a certain warping of timetables from the most desirable times in order to provide that amount of transportation with the existing fleet. I think it could be said, where we are working the existing fleet hard, and that naturally has a tendency to deteriorate the desirable flight departure and arrival times. That situation, as I say, will exist not much longer, but it will exist, I am afraid, until the delivery of the new equipment starts.

Mr. MOTT: Well, you changed it last year, did you not?

Mr. MCGREGOR: Yes, that was when we went to five flights.

Mr. MOTT: But you had four flights before?

Mr. MCGREGOR: That is right.

Mr. MOTT: And you changed it to five?

Mr. MCGREGOR: Yes, and we are going to six this spring.

Mr. FOLLWELL: It will be worse then?

Mr. MUTCH: Do you intend to expand the service from Toronto to Ottawa when you put in these six transcontinental flights, and thus eliminate that long wait in the middle of the night?

Mr. MCGREGOR: Yes, I believe there is a good connection on the April 26th timetable, but we have to provide a reasonable interval of time at Toronto in order to compensate for the situation when the transcontinental flight might be late in arriving at Toronto.

Mr. MUTCH: There would not be any justification for increasing the number of flights between Toronto and Ottawa?

Mr. MCGREGOR: I believe that the total number of flights is eight between Toronto and Ottawa now.

Mr. MOTT: You seem to quit about 11 o'clock at night.

Mr. MCGREGOR: There is one flight after that.

Mr. MOTT: If you are just a little bit late for the flight at nighttime, you might as well catch the train from Toronto to Ottawa, from that time on it is a terrible service.

Mr. GEORGE: Do you anticipate installing a through service between Ottawa and the east? For instance, now we have a lay-over in Montreal of four hours.

Mr. MCGREGOR: Yes, except on one flight. I think the service involving all intercity transportation will be improved with the delivery of the Viscounts—

will be very much improved. The Viscounts will be more than 100 miles an hour faster than the North Star, and 165 miles an hour faster than the DC-3's. As the traffic grows between two specific points, it begins to be possible to justify direct flights between those points.

The CHAIRMAN: What is the speed of the Viscount?

Mr. MCGREGOR: 305 miles an hour, cruising.

Mr. CARTER: Are they more economical in operation?

Mr. MCGREGOR: We believe they will be, but cannot say definitely until we find what the maintenance costs of engines will be.

Mr. MOTT: When do you expect to have them on the Canadian routes?

Mr. MCGREGOR: We expect delivery to start in September of next year and continue till April, 1955.

Mr. MOTT: What route will they go on first—routes in eastern Canada?

Mr. MCGREGOR: I think they would start on services between Montreal and New York, Toronto and New York, Montreal and Toronto, both direct and via Ottawa, Montreal and the maritimes, and then if the new route that was referred to in the report, is provided by that time they would operate to Winnipeg, Sault Ste. Marie and the Lakehead through Sudbury from Ottawa and Montreal.

Mr. MOTT: You are not planning to put any on the transcontinental runs?

Mr. MCGREGOR: No, because of the comparatively short range of the aircraft.

Mr. FOLLWELL: What is the accident or safety record of the T.C.A. in comparison with other air lines?

Mr. MCGREGOR: Well, that is a point that is difficult to talk about.

Mr. FOLLWELL: I always understood you were best. I was just wondering if you could confirm that.

Mr. MCGREGOR: That has to be related to the total volume of transportation provided by a company. There are companies that have had a longer, a very much longer, period of time accident free than T.C.A. has. On the other hand, they have been providing a very much smaller operation. So it has to be related to how much flying has been done. The International Air Transport Association measurement states it as "passenger fatalities per one million passenger miles flown". The answer, as far as the T.C.A. is concerned at the moment, is zero.

Mr. FOLLWELL: How does your company settle claims in connection with accidents in which people are killed?

Mr. MCGREGOR: That is a matter for the claims department to work out in conjunction with the legal people, and claims are paid to next of kin, depending on the circumstances.

Mr. FOLLWELL: What I mean by that is, do you carry insurance on these coverages with outside firms or do you carry it yourself?

Mr. MCGREGOR: We carry insurance both with respect to passenger liability and the hull of the aircraft and property damage up to \$1 million as first deductible. We insure our catastrophic risk up to \$5 million with outside underwriters.

Mr. FRASER: In regard to insurance that the passengers can buy from your firm, do you issue that insurance yourself or is that provided by an outside company?

Mr. MCGREGOR: No, that is an outside company. That insurance is not bought from T.C.A.

Mr. FRASER: You sell it from your offices, though?

Mr. MCGREGOR: Yes, and we also have vending machines at the airports and some city ticket offices.

Mr. FRASER: And you get a commission on that?

Mr. MCGREGOR: Yes.

Mr. FRASER: In regard to the Montreal-New York flight and the Montreal-Toronto flight. Both these flights have the same mileage, but you charge more for your Toronto-Montreal flight than on the Montreal-New York flight. Why is that? Is it because you have not a monopoly on it?

Mr. MCGREGOR: No, for another reason, Mr. Fraser; or rather, for two or three other reasons. In the first place, the Montreal-New York service is probably the oldest transport service on the continent. It was originated by the Canadian Colonial, which was later taken over by the Colonial Airlines, and the fare on that service is an extremely old one which has not been, for some reason or other, changed by that operating company. When Trans-Canada Air Lines obtained the right to parallel that operation, it was naturally necessary for it to meet the fare that had been in effect for some time.

Mr. FRASER: You got permission to fly that route a year ago?

Mr. MCGREGOR: Yes; but actually the costs of operating the Montreal-New York route, as compared with Montreal-Toronto, are considerably less for two or three reasons, principally fuel. The fuel cost of gasoline purchased at New York is 19.85 cents per imperial gallon. The cost of the same gallon of fuel at Toronto is 28.79 cents. Both those figures are stated in Canadian funds and relate to an Imperial gallon.

Mr. FRASER: Is there any tax on either of those figures?

Mr. MCGREGOR: Yes, but it is included. There is an airport gas charge on the Canadian purchase which is included in that figure for Toronto.

Mr. FRASER: Of how much?

Mr. MCGREGOR: One cent per gallon. I believe it is.

Mr. FRASER: In that case, then, you buy all your gasoline for those flights in the United States?

Mr. MCGREGOR: As much as is permissible.

Mr. FRASER: Can you travel from New York to Montreal and return on one load?

Mr. MCGREGOR: Not usually, it would depend on wind conditions and the load in the aircraft, and so on.

Mr. FRASER: And you pick up the extra then in Montreal for the return?

Mr. MCGREGOR: That is right. In addition, the landing fee paid in New York is \$12, and the landing fee paid in Toronto is \$19.50 per flight.

Mr. FRASER: That is a government field, too?

Mr. MCGREGOR: Department of Transport.

Mr. MACDONNELL: Would it be appropriate here to ask Mr. McGregor if he could say something about the development of air cargo business? I gather that you are not booked to capacity at the moment. I would like to ask you two questions: chiefly, whether you feel you have done the maximum in attracting business by lowering rates, and, secondly, to ask if there is anything in connection with new types of construction which will hold prospects of greatly increasing air cargo business. Could you let us have some remarks on that?

Mr. MCGREGOR: I would like to. We do not feel that everything possible has been done in the matter of developing cargo. It is a continuing and accelerating development. We have made progressive reductions in our cargo

tariff over the years, we have been in the cargo business, by the way, since 1948—and we have put three reductions in force, the last one in fact being the July 1st reduction of 1952 which the report refers to. In addition to that, we filed in January of this year a further reduction of 30 per cent, but the implementation of it was suspended by the Air Transport Board because of the Canadian Pacific Air Lines application which was about to be heard. In addition to that, the amount of advertising that has been devoted to air cargo and the direct sales stimulation has increased steadily. We now have 47 employees in the system devoting their activities entirely to the development of air cargo business, and our expenditures in the matter of advertising have gone up steadily and will continue to do so.

Touching on the other point that you mentioned, you will note that the report referred to the purchase of three Bristol freighters. If the manufacturer's statements can be relied upon, and I think they can, the cost of providing air-cargo transportation in these aircraft will be considerably lower than would have been the case had we ordered cargo adaptations of passenger type aircraft. I look for a continuing increase in the speed of development of air cargo.

Mr. MACDONNELL: Could you give us one or two illustrative figures to show the comparative freight charges now on a certain type of commodity?

Mr. MCGREGOR: Yes. I think it could be said that our average over-all rate per ton mile of air cargo costs the shipper about 28 cents.

Mr. MACDONNELL: How would that compare with rail costs, and costs of shipment by sea?

Mr. MCGREGOR: It is many, many times the rate of sea transportation of cargo, and it varies considerably with respect to rail express, depending on how circuitous the rail route is. I think it is only slightly more than the rail express rate between such points as Calgary and Vancouver, and perhaps twice the rail express rate between Montreal and Toronto.

Mr. MACDONNELL: Are there any commodities which especially seek air transport?

Mr. MCGREGOR: Yes, flowers in season, cut flowers particularly, drugs, furs, styled clothing, photographic equipment, exposed unprocessed films and movie films.

Mr. FRASER: Chicks?

Mr. MCGREGOR: Chicks, and turkey pullets in great numbers at certain seasons.

Mr. BROWNE: How about the transportation of articles requiring refrigeration, like fruits and fish? Have you done anything about that?

Mr. MCGREGOR: Yes, we have carried fresh fish with rather indifferent success, and I think that same experience applies to other air lines, but there is no provision for refrigeration in cargo carrying aircraft, at the present time, and I doubt if there will be because of its weight.

Mr. BROWNE: But they ship lobsters, don't they, and fresh salmon, which are high priced?

Mr. MCGREGOR: Yes, and lake trout to some degree.

Mr. BROWNE: Do you carry any of these products from Newfoundland?

Mr. MCGREGOR: No. We did on an experimental basis carry some east coast fish products—cod fillets, lobsters and oysters—from the Maritimes to Montreal and Toronto, but the traffic, frankly, could not bear the cost at that time.

Mr. CHURCHILL: Mr. Chairman, on this general question of passenger traffic and commodity traffic, I wonder if Mr. McGregor could give us some more information in general terms with regard to the future development of

air travel in Canada. I notice in the past 10 years that passenger traffic has increased 10 times, and I note by the map here that there are other air lines operating in Canada. One of the questions I would ask is this: does Mr. McGregor foresee a time when the increase in air travel and in air cargo would bring about an increase in the number of air lines operating in addition to the Trans-Canada Air Lines now? In connection with that, I wonder if Mr. McGregor would care to comment on a statement he apparently made in Winnipeg a little while ago in connection with this matter of air cargo. I did not see the news report of the statement, but I did see an editorial comment in the *Winnipeg Free Press*, on which I wonder if Mr. McGregor would like to say something. From that I would just read one paragraph. I am raising the question, only for information—I have formed no opinion with regard to these matters whatsoever—but this has become a matter of public interest and perhaps this is the occasion on which comment could be made. This one paragraph simply says:

Mr. McGregor gave reasons why his company should continue to hold a monopoly of the transcontinental air service, and why the pending application of the Canadian Pacific airlines (now before the Air Transport Board) for a license to fly a transcontinental air freight service should be refused.

That is the end of the quotation. On these two points, could you enlighten us as to what you see is the development of air travel in Canada, and whether or not other air lines will be given an opportunity to participate in this development of traffic?

MR. MCGREGOR: Yes, I would like to comment on the quotation which you read, though first I should say that I did not plead the case in Winnipeg because it was under consideration, and still is, by the Air Transport Board, but I did quote, as I understand I was permitted to do, from the evidence which had been submitted in public at that hearing. I think the T.C.A. case in that record can be summarized in these words: The history of air transportation, particularly in the United States where the development has run ahead of this country, due to the fact that they got into civil air transportation earlier than did Canada, has been that a route can be operated on an economical basis while the frequency is reasonably high, and the frequency over any one route at which that condition of economic operation occurs varies with the specific conditions associated with that route, but it is certain that if the transportation on any one route is divided between two or more carriers so as to produce the condition where the daily frequency of flight becomes lower than that economic minimum, then everybody loses money, and that has been proven time and time again. There was a tendency at one time in the United States to say to anybody who applied for a licence on a route which was already being served, "Yes, go and try it", and the condition arose in which the losses incurred by those companies had to be made up by the form of subsidy used in the United States of increasing the mail pay.

Our feeling is that there will come a time in the history of Canadian development when two companies may be operating on a transcontinental basis and each have a frequency high enough to keep it profitable and still operate at reasonably low rates. We feel that that state of development is a considerable time in the future. We feel certain that the introduction of competitive service of that type now would produce a lowering of the frequency by both companies below that minimum frequency which I mentioned. I think it should also be said that the so-called transcontinental monopoly is rather threadbare at the present time. We have paralleling services from the west coast virtually as far east as Winnipeg, except for a few gaps here and there, and we have competing service over a number of our maritime routes.

Furthermore, a transcontinental Canadian air operation is automatically paralleled by the United States services operating a short distance south of the border, and it is not an unusual thing for a man travelling between Vancouver and Montreal or Toronto to avail himself of that competition.

Mr. MACDONNELL: Do any of these lines operate in Canada?

Mr. MCGREGOR: Over the transborder routes, Buffalo to Toronto, Seattle to Vancouver, both are operated by American carriers.

Mr. GEORGE: On that route, do you sell the ticket for the whole trip?

Mr. MCGREGOR: Not in the case of the passenger beginning his travel with another carrier. If the travel begins with us, we would sell the whole ticket.

Mr. FOLLWELL: Do you get a commission for selling tickets of that nature?

Mr. MCGREGOR: Not on services between the United States and Canada. We do on international services.

Mr. FOLLWELL: If you sold a ticket from Toronto to Vancouver via the United States, and from Buffalo the passenger went to Seattle by an American air line and then went from Seattle to Vancouver, would you get a commission on that part between Buffalo and Seattle in the United States?

Mr. MCGREGOR: No. By agreement we will sell tickets for American air lines and they will sell on ours without commissions being paid either way.

Mr. CHURCHILL: Do you consider these arguments apply equally to passenger traffic as to air cargo?

Mr. MCGREGOR: Yes.

Mr. BROWNE: May I ask a question about the fare. I mean the food supplied, the menu. Is there any prejudice against the serving of fish on Fridays on air lines? I have never seen it served.

Mr. FRASER: What—serve flying fish!

Mr. MCGREGOR: There is a slight prejudice because the serving of a fish meal in an aircraft tends to produce an unpleasant odor throughout the cabin throughout the flight, although that prejudice is over-ruled and we do serve fish meals on Friday. I had one myself, recently.

Mr. BROWNE: On which route?

Mr. MCGREGOR: I was flying between London and Toronto.

Mr. BROWNE: Well, I have never seen any between Newfoundland and Ottawa. We have never had it between Newfoundland and Montreal.

Mr. MCGREGOR: I feel sure fish meals are frequently served on that route too. It is not a must and, frankly, we are not very keen on the result of carrying fish meals, because they do tend to be somewhat odoriferous.

Mr. BROWNE: When they do do that, do they have a full fish meal?

Mr. MCGREGOR: No, it is just the main course of fish.

Mr. MACDONNELL: I was interested in Mr. Churchill's question and I would like to ask you to say a word or two more about competition, first of all, going back to competition with American planes. If you fly from Seattle to Toronto, can you have a through flight on the same plane?

Mr. MCGREGOR: You have to change at Buffalo or Chicago.

Mr. MACDONNELL: Would you say a little more about the extent of competition existing in your Canadian business. I think that generally perhaps we like to avoid monopolies, but on the other hand you have pointed out a real difficulty, and I see the difficulty. Can you tell us a little more about the competition? You said, for example, that there was a good deal even presently existing, but I gather from what you said it is more in the nature of bits and pieces, perhaps a little bit of competition and then a gap. That is not very real competition in the transcontinental sense, is it?

Mr. MCGREGOR: That is quite true. Competition is keen enough over the short legs and the short routes, but there is a major gap between Winnipeg and Toronto.

Mr. MACDONNELL: Can you say how much of your present income is gained in a competitive area, over-all?

Mr. MCGREGOR: It would be only a guess, but I think it would be not a very large percentage of the total.

Mr. MACDONNELL: I mean, over-all, the Atlantic area, the whole business.

Mr. MCGREGOR: That would be a different picture. We are in intense competition on the Atlantic.

Mr. MACDONNELL: You are doing well there?

Mr. MCGREGOR: Satisfactorily well. We are in competition, after a fashion, at virtually all points in the Caribbean. We are competitive with all the major transborder routes, Montreal-New York, Toronto-New York, and we are competitive, as I described at both ends of our transcontinental operations, with limitations. I would think a fair guess might be that perhaps 45 or 50 per cent of our total revenue came out of competitive routes.

Mr. MACDONNELL: Well, then, can you answer this question: do you do much worse there than you do where you have no competition?

Mr. MCGREGOR: No, but where the competition exists the condition that I mention also exists of a high density of traffic. Montreal-New York, and Toronto-New York are two of the heaviest routes we operate.

Mr. MACDONNELL: Montreal to Toronto, is that fairly dense?

Mr. MCGREGOR: Yes, that is fairly dense, too. But that is about the only one I would say where there is a density of traffic that might justify competition.

Mr. FOLLWELL: I wonder if Mr. McGregor would comment on this. I notice in the report that the Post Office Department has made substantial reductions in the air parcel post rates, with the result that there is some increase in that business. In spite of the fact that you get more traffic in air parcel post, you do not get more money?

Mr. MCGREGOR: No, that is correct.

Mr. FOLLWELL: You are still on a fixed fee basis for operating that service?

Mr. MCGREGOR: Yes. That will continue until the gap between the existing total volume and the contracted total volume is closed.

Mr. MACDONNELL: It has been said by representatives of the C.P.A. that competition is a good thing. Would you agree with that general proposition, that competition is a good thing?

Mr. MCGREGOR: Yes, once the volume of traffic has reached the point where you will not be operating an uneconomically low number of services.

Mr. FRASER: On your Bermuda route, is that seasonal?

Mr. MCGREGOR: Yes, but not as seasonal as some of the other resort area regions.

Mr. FRASER: But you do good with your air service there in the summer?

Mr. MCGREGOR: Yes, from spring through to early fall, the reduction in traffic is not as pronounced as in the case of Caribbean points.

Mr. MACDONNELL: Is the Canadian National helping you in every way to get as much freight traffic as possible?

Mr. MCGREGOR: I have not noticed it particularly.

The CHAIRMAN: "Passenger Traffic", and "Commodity Traffic"?

Carried.

"Routes"?

Mr. FRASER: You have not carried "Mail Traffic" on page 11 yet. I believe Mr. McGregor has said that he could get the figures in regard to how close you were getting to the load limit on the post office contract.

Mr. MCGREGOR: Just a minute.

Mr. HARVEY: The commitments for the year were 5,400,000 ton-miles, and we flew 4,217,000.

Mr. FRASER: You say 4,217,000. There is a difference of 1 million odd; and was your parcel post carried on that same rate?

Mr. MCGREGOR: Yes, that rate applies to the total content of mail, and we do not know or care whether it is made up of parcels or letters, it is all turned over to us in bags.

Mr. FRASER: On account of your reducing the rates, that fact should raise the tonnage very quickly?

Mr. MCGREGOR: I would think so. It is not a very well known service as yet. The air parcel post has not had a great deal of publicity, and like most things it requires time in order to be extensively used by the public.

Mr. FRASER: Education?

Mr. MCGREGOR: Yes.

Mr. FRASER: The Post Office Department have had circulars out on it.

Mr. MCGREGOR: Yes.

The CHAIRMAN: Are there any questions on the heading of "Routes"? Carried.

"Property and Equipment", page 11?

Carried.

Mr. FOLLWELL: I take it that the North Stars are doing a mighty fine job?

Mr. MCGREGOR: Yes, and we are very happy with them.

Mr. MACDONNELL: Are they more quiet now?

Mr. MCGREGOR: Not yet, but we hope they will be soon.

Mr. FRASER: There has been quite a change in the engine?

Mr. MCGREGOR: I think Mr. Macdonnell was referring to the plan which I mentioned last year in which we would have cross-over exhaust manifolds installed. A good manifold has been developed for well over 18 months. An order was placed for 122 sets, but delivery delays have been encountered I am sorry to say. However, we expect to start to get the cross-overs in volume in June, and we hope that if the manufacturing problems are completely eliminated, we will have the whole fleet equipped by September of this year. But as I say regretfully, I have been preaching that same gospel for two years now.

Mr. FRASER: In those two years there has been quite a change in the light metals they can use in those exhausts. Have you changed those too?

Mr. MCGREGOR: That has been part of the delay.

Mr. FRASER: I would think so, because in the last few months there has been another metal crop up which they could use.

Mr. MCGREGOR: Yes, but that probably is not available in the quantity required.

Mr. MUTCH: The main change is that we are getting used to the noise.

The CHAIRMAN: Shall "Property and Equipment" carry?

Carried.

"Personnel"?

Mr. BROWNE: There is the heading of "Airport and Airway Facilities" before that on page 14, Mr. Chairman, and I would like to ask what facilities there are at Torbay Airport? I have seen people standing there because there were no seats on which to sit down.

Mr. MCGREGOR: The airline is not responsible for the passenger handling facilities at airports. That is the function in most cases, depending on the administration of the field, of the Department of Transport.

Mr. BROWNE: Can you tell me what arrangements you have got to land your aircraft at Stephenville?

Mr. MCGREGOR: We have permission from the United States authority. That service has been in effect for over two years now. It is an agreed stop, and it is named in the bilateral agreement with the United States.

Mr. BROWNE: It does not cost you anything?

Mr. MCGREGOR: Just the landing fees.

Mr. BROWNE: What do you pay there?

Mr. MCGREGOR: I think we can give you that.

Mr. HARVEY: I have it here. The rate for North Star aircraft is \$20.03 per landing, and the DC-3 \$5.15 per landing.

Mr. BROWNE: I have one other question. Have you got a GCA approach system in effect at Torbay?

Mr. MCGREGOR: We have nothing to do as an airline with the establishment or operation of air navigational aids. That is all the function of either the Department of Transport or the military services involved.

Mr. BROWNE: Is that service there, or when you get there during a fog, do you have to go away and come back again?

Mr. MCGREGOR: We have the ILS at Torbay, but not the GCA.

Mr. MACDONALD: With regard to airport or airway facilities, and regarding terminal facilities, we notice there is quite a differential between New York and Toronto. You are giving reasons for not putting the Vickers Viscounts in service west of Winnipeg because of fuel capacities and so on.

Mr. MCGREGOR: Yes.

Mr. MACDONALD: Would another reason be that terminal facilities west of Winnipeg are not suitable for such aircraft?

Mr. MCGREGOR: No. I would not say they would not go into service west of Winnipeg. I say they would not be used on the transcontinental flights. However we will probably make use of them on shorter routes west of Winnipeg.

Mr. MACDONALD: Is there a difference between the various airports with respect to landing fees, and the cost of fuel which would keep you from extending them to those fields?

Mr. MCGREGOR: No I do not think that applies. But the point which you mentioned of the administration building capacity could very seriously apply in regard to that operation. I personally think that Vancouver is the only place in Canada which has adequate passenger handling facilities at the present time, and that is perhaps due to the fire there some few years ago.

Mr. MACDONALD: There has been some interesting comment recently with regard to moving the airport at Edmonton, in respect to leaving the present field, the city field there for the local flying club, and moving all the larger aircraft to another base. Perhaps suitable arrangements could be worked out with National Defence?

Mr. MCGREGOR: Yes.

Mr. MACDONALD: How would that suit your convenience. Would it add materially to your landing fees, to your cost of gas or your fuel costs?

Mr. MCGREGOR: I do not think that the cost of moving would have any material effect along those lines. But as an airline we would be sorry to see it happen because we feel that one of the drawbacks of an airline is the time and the distance involved between city centers and the airports. Consequently we think that any extension of that distance would be a retrograde step.

Such things as occurred in Newark a year ago create some argument. But I personally feel that there is very little difference in the municipal hazard between using an airport one mile away and using an airport which is 5 miles away.

Mr. MACDONALD: There is some feeling that eventually the airport in Edmonton will have to be relocated.

Mr. MCGREGOR: Yes.

Mr. MACDONALD: Do you foresee any type of aircraft being put into operation by your company that would make the facilities at Edmonton obsolescent, in so far as your company's use of the airport is concerned?

Mr. MCGREGOR: Not with what we have on order or in contemplation would it be true.

Mr. MACDONALD: Would the facilities at the Namao base be suitable for your operations, if it were decided that the present airport in Edmonton would not be used for heavy aircraft, and that they should go outside the city?

Mr. MCGREGOR: So far as I know that is true.

Mr. MACDONALD: Thank you.

Mr. FRASER: On page 14 it mentions that:

"TCA continued the overhaul of RCAF training aircraft under contract with the Department of Defence Production. . ."

Do you do that work on a cost plus basis?

Mr. MCGREGOR: Yes.

Mr. FRASER: What does it amount to in the year?

Mr. MCGREGOR: You want the total amount of money?

Mr. FRASER: Yes.

Mr. HARVEY: Included in our accounts this year there is the sum of \$800,000.

Mr. FRASER: That is the gross.

Mr. HARVEY: No, the net. That is reflected in our revenue account. That is the net.

Mr. FRASER: That is the net profit?

Mr. HARVEY: Yes. You were speaking about the contract?

Mr. FRASER: Yes.

Mr. HARVEY: Exclusive of any overhead, if we applied our overhead, we would then net only \$165,000.

Mr. FOLLWELL: Is that a continuing arrangement with the department, or will it be finished in a year or so?

Mr. MCGREGOR: Frankly, we do not know. The original intention was that it should have quite a short life. I think the desire of the RCAF, was to make it short lived, in order to tide over the situation while their organization was built up. But it has extended longer than was originally planned. Two or three times an expression of opinion has been given by the RCAF that it would have to be extended again. I must say that we are in some doubt as to how much longer it will remain in the company.

Mr. FOLLWELL: You feel it is of some help to your line, to do these things?

Mr. MCGREGOR: Yes, it is of some help to us, because, it increases our total contact with experienced labour in Winnipeg.

Mr. FOLLWELL: It helps to train personnel?

Mr. MCGREGOR: Yes.

Mr. JAMES: There have been times when you have had a little trouble with fog around Malton. Has any study been given to using Oshawa as an alternative airport? It is about as close to Toronto, comparatively, as Malton.

Mr. MCGREGOR: That is true, and there are studies going on. I was talking to Group Captain Davoud about it only two days ago and it may well be that Oshawa, with some additional surfacing, can be a satisfactory alternative to Malton.

Mr. FRASER: In regard to the contract let for the construction of this hangar at Malton airport, is that one that you are putting up yourself?

Mr. MCGREGOR: Yes.

Mr. FRASER: What is the cost of it?

Mr. MCGREGOR: \$3,800,000.

Mr. FRASER: And when will it be ready?

Mr. MCGREGOR: I hope it will be ready by the end of this year.

The CHAIRMAN: Are there any further questions on "Airport and Airway Facilities"?

Carried.

Mr. FOLLWELL: It says here that the company transferred its New York operations from La Guardia Field to Idlewild Airport. And you say that it will have the ultimate effect of obtaining for TCA a decided improvement in passenger handling facilities. Is it making any improvement in the number of passengers that we have?

Mr. MCGREGOR: I think the word ultimate was in my reference to an improvement, because it certainly does not exist yet. It refers to the future.

The CHAIRMAN: Carried.

Mr. BROWNE: On "personnel", do the airway dispatchers at Gander come under you?

Mr. MCGREGOR: We use our own dispatchers. They are employees of TCA.

Mr. BROWNE: Did they not have a dispute about compensation which they were receiving, quite recently?

Mr. MCGREGOR: Not our dispatchers.

Mr. BROWNE: Perhaps it was in the Department of Transport?

Mr. MCGREGOR: I think it must have been.

The CHAIRMAN: "Personnel"?

Carried.

"Future Aircraft"?

Mr. FRASER: Is Mr. McGregor going to say anything about these new Super Constellations he is putting in?

Mr. MCGREGOR: The report, I think, covers it quite fully. Technically, they are an evolution from the Constellation aircraft previously or now in service with many of the major airlines of the world. The 1049 C can be seated in many arrangements up to, I think, a maximum for high density seating throughout the aircraft of 98 passengers. They are powered by a Wright engine which is known as the 3350 compound engine. They take the normal

piston engine in such cases and construct them with three turbines, and get a resulting additional horsepower of about 450. The power from the turbines is geared to the main crank shaft of the engine. It is a very economical engine to operate. It produces about 3,600 horsepower for take-off, and it seems to be the logical step between a straight piston engine and the turbine type of power. We expect to have extensive economical operations with such aircraft. They will have been both as to airframes and engines, in commercial service for two years before we shall have them in our service.

Mr. FRASER: Just what do you mean by that?

Mr. MCGREGOR: The Eastern Airlines already have them.

Mr. FRASER: You mean they are using them at the present time?

Mr. MCGREGOR: Yes, and their experience with the aircraft is good. I think they have not yet operated with the new type of engine to which I referred. But the United States navy has had that engine in operation for about a year now.

Mr. FRASER: You mentioned 98 passengers. You would not put in 98 would you?

Mr. MCGREGOR: That is right.

Mr. FRASER: What will you put in?

Mr. MCGREGOR: Sixty-three.

Mr. FRASER: You say 63. There would be no reduced fares on that?

Mr. MCGREGOR: Yes. That is a composite cabin arrangement.

Mr. FOLLWELL: Is there a first and a second class fare in the same plane?

Mr. MCGREGOR: Yes.

Mr. FOLLWELL: What would be the difference in the service, if it is the same plane?

Mr. MCGREGOR: I think we referred to that a short time ago. Seating arrangements are fairly congested and there are fewer amenities.

Mr. MACDONNELL: More dense?

Mr. MCGREGOR: Yes.

Mr. FRASER: I take it they are a little more quiet than the North Stars?

Mr. MCGREGOR: Yes, but no more quiet probably than the North Stars will be after September.

The CHAIRMAN: In regard to the motive power of the Vickers Viscount, what is that type of engine?

Mr. MCGREGOR: It is a type of propeller engine which does away with all reciprocating parts. There are no pistons popping up and down, and no valves, and that accounts for its amazing freedom from vibration.

The CHAIRMAN: Carried.

"Aircargo Planning"?

Carried.

"Route Planning"?

Carried.

"Immediate Outlook"?

Mr. FRASER: With respect to this route planning and the routes which you have marked here on the main map, is that the only planning you have at the present time?

Mr. MCGREGOR: Yes.

Mr. FRASER: Will that be just the TCA or will it be competitive?

Mr. MCGREGOR: The route through Sudbury?

Mr. FRASER: Yes.

Mr. MCGREGOR: I hope it will be just the TCA.

Mr. FRASER: But you are not sure yet?

Mr. MCGREGOR: We have not even got the licence yet.

The CHAIRMAN: Shall the report carry?

Carried.

Shall we now turn to the budget?

TRANS-CANADA AIR LINES CAPITAL BUDGET—1953

	Revotes	New Items	Total
Airplanes	\$	\$ 206,000	\$ 206,000
Engines		864,000	864,000
Propellers	57,000	50,000	107,000
Radio Equipment	74,000	418,000	492,000
Instrument Equipment		72,000	72,000
Passenger Service Equipment		233,000	233,000
Spare Units and Assemblies	11,000	883,000	894,000
Ground Communication Equipment	6,000	48,000	54,000
Hangar, Shop and Ramp Equipment	94,000	432,000	526,000
Motorized Vehicles Equipment	41,000	246,000	287,000
Office Equipment	53,000	207,000	260,000
Storage and Distribution Equipment	12,000	21,000	33,000
Buildings		4,559,000	4,559,000
Contingency		200,000	200,000
	<u>\$348,000</u>	<u>\$8,439,000</u>	<u>\$8,787,000</u>

STATEMENT SHOWING SOURCE OF FUNDS FROM WHICH CAPITAL EXPENDITURE IS TO BE FINANCED

Net Income	\$ 600,000
Depreciation Accruals	5,200,000
Re-call of Deposits with CNR to extent of	3,000,000
Funds available for capital expansion	<u>\$8,800,000</u>
New Capital Required	NIL

TRANS-CANADA AIR LINES
OPERATING BUDGET—1953

Operating Revenues	\$62,700,000
Operating Expenses	60,700,000
	<hr/>
Operating Income	\$ 2,000,000
Non-Operating Expense—Net	500,000
	<hr/>
Income	\$ 1,500,000
Provision for Income Taxes	900,000
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Net Income	\$ 600,000
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The CHAIRMAN: "Trans-Canada Air Lines Capital Budget—1953". Are there any questions?

Mr. MACDONNELL: "New capital required, nil."

The CHAIRMAN: Very refreshing!

Mr. FOLLWELL: I have a question. It seems to me that the airlines—all of them, and I suppose we are the same—consistently seem to be locating their agencies in quarters which are very expensive. Does TCA follow that line too? I think they do. It seems to me that they get a lot of overhead which would be unnecessary in comparison with the railway?

Mr. MCGREGOR: Personally I feel that is a criticism which is honestly directed at some airlines, but I do not think we are guilty of it. We have consistently refused to keep up with the Jones's by having Fifth Avenue offices in New York. We think that if a place is reasonably convenient to ground transportation in a city for the purchase of tickets, that seems to us all that is required. We do not have these very expensive corner locations and "posh" offices. Those are things we have avoided consistently.

Mr. MACDONNELL: What about Dorchester St.?

Mr. MCGREGOR: That ground floor is shared by five different airlines.

The CHAIRMAN: Carried.

"Operating Budgets".

Mr. BROWNE: In the operating budget I notice there is no item for non-operating income which is included in the financial review. Is there any reason for that?

Mr. HARVEY: We netted the interest paid on \$25 million against interest received on the deposits with the railway together with other items.

Mr. BROWNE: You have got that in the non-operating expenditures?

Mr. HARVEY: That is right.

Mr. BROWNE: Is the \$500,000 the net of the two things?

Mr. HARVEY: That is right.

Mr. CARTER: What kind of items are included in non-operating expenditures? May I have just an idea of that?

Mr. MCGREGOR: Loans on which interest was charged, would be one.

Mr. HARVEY: And cash discounts taken. That is a big thing. It runs about \$5,000 or \$6,000 a month.

Mr. BROWNE: Who gets that?

Mr. HARVEY: The airline. Then there is the interest received on the deposits. That is the principal item.

Mr. FRASER: In relation to the operating budget, you have a provision for income tax of \$900,000, and on page 5 of the report you say it is \$1,200,000.

Mr. HARVEY: That is right.

Mr. FRASER: How do you come by that?

Mr. MCGREGOR: You mean the difference?

Mr. FRASER: Yes!

Mr. MCGREGOR: First of all, we are assuming a lower operating surplus in 1953 than in 1952. And the second thing is, that there has been some reduction in corporate income tax, due to the budget.

Mr. BROWNE: But you have got the same rate for both. You do not allow for the 60 per cent.

Mr. MCGREGOR: I am glad to say that it is not 60 per cent in our case. It is 52 per cent, I think.

Mr. BROWNE: You have got 60 per cent of \$900,000.

Mr. HARVEY: When we submitted this, it was before the good news came down, so we could not very well change it.

Mr. BROWNE: It will be less than that, then?

Mr. HARVEY: Yes.

The CHAIRMAN: Carried.

Are there any further questions on "Operating Budget"?

Carried.

Mr. GILLIS: Have you broken down in your report your operating expenses, or the percentage of your operating expenses which would be chargeable to wages and salaries?

Mr. HARVEY: It is 43.86 per cent.

The CHAIRMAN: Does the "Operating Budget" carry?

Carried.

Mr. Macdonnell, would you move that we dispense with the reading of the auditor's report?

Mr. MACDONNELL: I so move.

Carried.

GEORGE A. TOUCHE & CO.
Chartered Accountants
LEWIS BUILDING
465 St. John Street
Montreal 1

TRANS-CANADA AIR LINES

24th February, 1953.

The Right Honourable the Minister of Trade and Commerce,
Ottawa, Canada.

Sir,

We have audited the accounts of the Trans-Canada Air Lines for the year ended 31st December, 1952, under the authority of the Trans-Canada Air Lines Act, 1937 as amended and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive

accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the Balance Sheet and the Statement of Income and certification thereof.

STATEMENT OF INCOME

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

(a) Flight equipment in service—

North Star M2—6 year estimated life from date of being put into service.

DC3—having been fully depreciated in 1951, no provision required.

(b) Ground facilities—estimated life, the period depending upon the type of asset.

Effective the 1st August, 1952, the estimated life from date of being put into service of North Star M2 aircraft was reduced from 7 years to 6 years, as it was considered that piston engined aircraft will be subject to a high rate of obsolescence.

Depreciation of flight equipment arrived at as above indicated, has been increased by \$335,000 thereby bringing the provision for the year into approximate agreement with the allowance permitted for income tax purposes.

The procedure adopted in 1951 and reported on by us in respect of the two used North Star M2 aircraft purchased during that year, has been followed with regard to the used North Star M2 aircraft purchased in 1952, the net book value thereof having been brought into line with the depreciated value of similar aircraft owned by the Air Lines by a charge to flight equipment depreciation expense.

Interest on Capital Invested

Interest at the rate of 3% was paid to the Canadian National Railway Company on its investment in the capital stock of the company.

Non-Operating Income—Net

This account is principally comprised of interest on deposits with the Canadian National Railways and discounts earned on purchases.

BALANCE SHEET

Assets and Liabilities

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken late in 1952. We have received a certificate from the responsible officers to the effect:—

(a) That the quantities were determined by actual count, weight or measurement or by a conservative estimate where such actual basis was impracticable, and

(b) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable secondhand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory by a credit to operating expenses of \$14,000.

During the year surplus funds of \$2,500,000, made available through accumulated depreciation accruals, were deposited with the Canadian National Railways. The total of such surplus funds on deposit with the Railway at the year end was \$13,500,000. Interest at the rate of 3% was paid to the Air Lines on these deposits.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry current assets. The year-end market value of these securities was 9·36% less than cost.

Capital Assets

Property and equipment is carried on the basis of cost, less accrued depreciation.

The classification of semi-consumable parts has been reviewed during the year, and in view of their rapid turn-over, it was considered advisable to record them as material and supplies.

Progress payments on purchase of aircraft represent advances on the purchase of eight Lockheed Super-Constellations for delivery starting early in 1954 and fifteen Vickers-Viscount aircraft for delivery commencing later in that year.

Insurance Reserve

The Insurance Reserve amounts to \$5,165,000 having increased \$593,000 during the year. As self-insurance accruals are not permitted as a charge against earnings for income tax purposes, aircraft hull insurance premiums have been suspended. The Insurance Reserve has, however, been increased during the year in line with the practice of previous years, part of the increase being effected by a transfer from Accrued Depreciation Reserve.

Surplus

After providing \$1,200,000 for income taxes, the net income for the year amounted to \$808,000, which has been reserved as a further contribution towards increased cost of future purchases of capital assets, bringing to \$4,699,000, the total amount reserved for that purpose at the 31st December, 1952.

Where foreign currencies are involved, the balance sheet accounts of the Air Lines are converted generally as follows:

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the rate of \$2.80 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,
George A. Touche & Co.

The CHAIRMAN: Are there any questions on the auditor's report?
Carried.

Before we adjourn, I know it would be the wish of the committee that I extend to you, Mr. McGregor, and to your associates, our thanks for the information which you have given us. I know you will convey our congratulations to them.

Mr. MCGREGOR: Thank you very much, Mr. Chairman.

Mr. BROWNE: I think we ought to ask Mr. McGregor to extend to his

staff our congratulations for the efficient manner in which they have been operating the TCA.

The CHAIRMAN: Thank you, Mr. Browne.

Mr. MCGREGOR: I shall be delighted to do so.

Mr. MACDONNELL: We hope his business will increase so rapidly that he will have competition everywhere soon.

The CHAIRMAN: The meeting is now adjourned.

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